

**OAKLAND UNIFIED
SCHOOL DISTRICT**
Alameda County
Oakland, California

Audit Report

Year Ended June 30, 2007



JOHN CHIANG
California State Controller

October 2009



JOHN CHIANG
California State Controller

October 20, 2009

Vincent C. Matthews
State Administrator
Oakland Unified School District
1025 Second Avenue
Oakland, CA 94606-2212

Dear Mr. Matthews:

The State Controller's Office has completed a financial and compliance audit of the Oakland Unified School District for the year ended June 30, 2007.

The audit disclosed instances of noncompliance, including some that would affect the amount of State funding the district received during the year. Pursuant to Education Code section 41344, you have 60 days from receipt of this letter to appeal any significant audit findings to the Education Audit Appeals Panel. The appeal should be submitted to the following address:

Education Audit Appeals Panel
c/o Department of Finance
770 L Street
Sacramento, California 95814

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Vernon Hal
Chief Financial Officer
Oakland Unified School District
Sheila Jordan, Superintendent
Alameda County Office of Education
Jody London
Board Director, District 1
Oakland Unified School District
David Kakishiba
Board Director, District 2
Oakland Unified School District
Jumoke Hodge
Board Director, District 3
Oakland Unified School District
Gary Yee
Board Director, District 4
Oakland Unified School District
Noel Gallo
Board Director, District 5
Oakland Unified School District
Christopher Dobbins
Board Director, District 6
Oakland Unified School District
Alice Spearman
Board Director, District 7
Oakland Unified School District
Paul Cobb, Mayor's Appointee
Oakland Unified School District
Harold Pendergrass, Mayor's Appointee
Oakland Unified School District
Vida Gonzalez, Mayor's Appointee
Oakland Unified School District
Scott Hannan
School Fiscal Services Division
California Department of Education
David Botelho, Chief
Office of State Audits and Evaluations
Department of Finance
Joel Montero
Chief Executive Officer
Fiscal Crisis Management Assistance Team
Senate Education Committee
Assembly Education Committee

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FINANCIAL SECTION



JOHN CHIANG
California State Controller

Vincent C. Matthews
State Administrator
Oakland Unified School District
1025 Second Avenue
Oakland, CA 94606-2212

INDEPENDENT AUDITOR'S REPORT

The State Controller's Office was engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oakland Unified School District, as of and for the year ended June 30, 2007, which collectively comprise the district's basic financial statements, as listed in the table of contents. The State Controller's Office was also engaged to audit the aggregate nonmajor governmental funds and the internal service fund type of the district as of and for the year ended June 30, 2007, as displayed in the district's basic financial statements. These financial statements are the responsibility of the Oakland Unified School District's management.

The district has not completed the reconciliations for Cash in County Treasury for all funds, including the Warrant Pass-Through Fund (Fund 76) as well as the payroll clearing accounts maintained in banks in conjunction with the district's addressing the accounting record deficiencies for accounts receivable, capital assets, accounts payable, revenue, deferred revenue, long-term debt, payroll, expenditures, and other related accounts in order to audit the 2006-07 financial statements of the district. As a result of the scope limitation, we limited our testing of the district's financial statements to evaluating whether the district had taken appropriate corrective action to address prior year audit findings and recommendations.

Due to the scope limitation, and because our limited testing identified that the district's accounting records were deficient and certain records and supporting data were not available, we were unable to obtain sufficient, competent evidential matter supporting the amounts at which cash, accounts receivable, capital assets, related accumulated depreciation, accounts payable, deferred revenue, long-term debt, revenue, expenditures, payroll, interfund transfers, and fund balances were stated in the accompanying financial statements at \$306,695,137, \$41,909,755, \$721,300,478, \$185,804,786, \$49,965,577, \$14,812,296, \$743,310,243, \$538,735,204, \$537,669,278, \$335,067,761, \$46,401,486, and \$316,592,050, respectively, as of June 30, 2007.

Due to the significance of the matters discussed in the preceding paragraphs, the scope of the work performed was not sufficient to enable the State Controller's Office to express, and the State Controller's Office does not express, an opinion on the financial statements referred to in the first paragraph. Similarly, we are unable to express, and do not express an opinion on the accompanying schedule of revenues, expenditures, and changes in fund balance—budget and actual—general fund and on the combining statements—nonmajor funds.

In addition, the district declined to present statements of fiduciary net assets for the agency funds-associated student body funds and subsidiary funds, for the year ended June 30, 2007. Presentation of such statements identifying the assets and liabilities of the funds, is required by accounting principles generally accepted in the United States of America. The omission of statements of fiduciary net assets for the agency funds-associated student body funds and subsidiary funds, results in an incomplete presentation, as explained above.

The accompanying financial statements have been prepared assuming that Oakland Unified School District will continue as a going concern. As discussed in Note 22 to the financial statements, the district's available reserves exceeded the minimum required level of available reserves by \$1,818,381. The district projected a negative cash balance of \$30 million at fiscal year end June 30, 2009. However, the district revised the projection to a negative cash balance of \$3 million. The projection does not include an estimated cash overstatement and payroll liability understatement totaling \$14.6 million that the district has not recognized, material questioned costs from prior years audits that the district may be required to repay, and a negative fund balance in the self-insurance fund of \$32,167,880.

In accordance with *Government Auditing Standards*, the State Controller's Office also issued its report dated October 20, 2009, on the State Controller's Office's consideration of the Oakland Unified School District's internal control over financial reporting and on the State Controller's Office's tests of the district's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of the State Controller's Office's 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 15 and budgetary comparison information on page 63 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. The State Controller's Office has applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, the State Controller's Office did not audit the information and expresses no opinion on it.

Similarly, the State Controller's Office was engaged to audit the financial statements referred to above for the purpose of forming opinions on the financial statements that collectively comprise the Oakland Unified School District's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Oakland Unified School District. As discussed in the fourth paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the basic financial statements. Similarly, we are unable to express, and do not express, an opinion on the accompanying supplementary information, including the schedule of expenditures of federal awards.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

October 20, 2009

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

INTRODUCTION

Our discussion and analysis of Oakland Unified School District (The District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2007. It should be read in conjunction with the District's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001 and; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Due to the net decrease in capital grants and contributions, property tax revenues, and other miscellaneous revenues, district-wide revenues across all funds decreased by \$7.8 million from the prior year.
- Expenses increased by \$30.3 million due to an increase of \$19 million in Instruction related costs, \$4.7 million increase in debt service and \$6.6 million in miscellaneous expenses.
- Cash balance increased by \$133.7 million from fiscal year 2005-2006 due mainly to the issuance of General Obligation Bonds for \$130 million.
- Capital Assets increased by \$35 million due primarily to completed building projects and on-going constructions-in-progress during the 2006-2007 fiscal years.
- Long-term liabilities increased by \$153 millions because of the issuance of General Obligation Bonds.
- **The required State reserve level of 2 percent or, approximately \$9.3 million, is met.**

REPORTING THE DISTRICT AS A WHOLE

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, Management Discussion and Analysis. The three sections together provide a comprehensive overview of the district. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the district's overall financial position.

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operations in more detail. These fund financial statements comprise the remaining statements.
- ❖ Basic services funding (i.e., regular and special education) is described in the governmental funds statements. These statements include short-term financing and balance remaining for future spending.
- ❖ Short and long-term financial information about the activities of the district that operate like businesses (such as food service or self-insurance funds) are provided in the proprietary funds statements.
- ❖ Financial relationships, for which the district acts solely as an agent or trustee, for the benefit of others to whom the resources belong, are presented in the fiduciary fund statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements. A comparison of the district's budget for the year is included.

Bond Refunding

In fiscal year 2006-07 the district refunded a portion of its outstanding General Obligation Bonds. The particular series, maturities, and applicable redemption dates for the bonds which have been refunded are set forth in the table below:

Election Year	Series of Bonds	Principal Outstanding (July 1, 2007)	Principal Refunded	Redemption Date
1994	Series B	\$4,394,811.90	\$3,470,566.90	Sept. 4, 2007
1994	Series C (CIB)	27,045,000.00	27,045,000.00	Sept. 4, 2007
1994	Series C (CAB)	6,388,292.20	5,550,617.80	Sept. 4, 2007
1994	Series D	3,438,761.00	3,155,747.90	Sept. 4, 2007
1994	Series E	9,010,000.00	8,970,000.00	Sept. 4, 2007
1994	Series F	61,120,000.00	56,565,000.00	August 1, 2010
1994/2000	Series 2001	91,190,000.00	89,335,000.00	August 1, 2008
Total		<u>\$202,586,865.10</u>	<u>\$194,091,932.60</u>	

Fund 17 – Change in Fund Balance

In Fiscal Year 2006-07 the district received the second portion of the State Emergency Apportionment loan in the amount of \$35 million, of which, \$32,816,816 was accounted for in *Fund 17, Special Reserve, Non-Capital Projects Fund*. This resulted in an increase of \$31,156,192 in the ending fund balance in said fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector's business.

The Statement of Net Assets and the Statement of Activities

The district as a whole is reported in the district-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the district's assets and liabilities are included in the statement of net assets. The statement of activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The district's financial health or position (net assets) can be measured by the difference between the district's assets and liabilities.

- Increase or decreases in the net assets of the district over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as condition of school buildings and other facilities, and changes in the property tax base of the district need to be considered in assessing the overall health of the district.

In the Statement of Net Assets and the Statement of Activities, we divide the district into Governmental activities.

The basic services provided by the district, such as regular and special education, administration, and transportation are included here. Property taxes and state formula aid finance most of these activities.

The government-wide financial statements can be found starting on pages 17 of this report.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other local governments, uses fund accounting to ensure compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The District has three kinds of funds:

1. Governmental funds

Most of the district's basic services are included in governmental funds, which generally focus on:

1. How cash and other financial assets can be readily converted to cash flow (in and out)
2. The balances left at year-end that are available for spending.

The governmental fund statements provide a detailed short-term view. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the district's programs. Because this kind of information does not encompass the additional long-term focus of the district-wide statements, additional information is provided at the bottom of the governmental fund statements that explains the differences (or relationships) between them.

2. Proprietary funds

The proprietary fund category includes Internal Service Fund which is used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund for health benefits.

3. Fiduciary Funds

The fiduciary fund category includes agency funds and the Payroll Trust /Warrant Pass-through fund. The district maintains an agency fund for student body accounts. The district's Payroll Trust/Warrant Pass-Trough Fund is used to account separately for employees' payroll activities.

OAKLAND UNIFIED SCHOOL DISTRICT**Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007****THE DISTRICT AS A WHOLE****Net Assets**

Table 1 provides a summary of the School District's net assets as of June 30, 2007 in comparison to June 30, 2006.

Table 1: Net Assets Comparison

Table 1
Net Assets Comparison
June 2006 - June 2007

	June 30, 2006	June 30, 2007	Net Change
Assets			
Cash	172,968,310	306,695,137	133,726,827
Investments		28,000,000	28,000,000
Receivables	38,905,601	41,979,878	3,074,277
Store Inventory	188,109	188,109	-
Prepaid Expenses	100,000	100,000	-
Capital Assets	500,555,571	535,495,692	34,940,121
Total Assets	712,717,591	912,458,816	199,741,225
Liabilities			
Accounts Payable and Other Current Liabilities	39,827,758	68,878,551	29,050,793
Deferred Revenue	12,805,357	14,812,296	2,006,939
Long-term Liabilities	587,232,375	724,397,269	137,164,894
Total Liabilities	639,865,490	808,088,116	168,222,626
Net Assets			
Invested in Capital Assets, net of Related Debt	92,829,563	97,160,148	(300,644,114)
Restricted	67,694,989	95,872,013	145,058,213
Unrestricted	(87,672,451)	(88,661,461)	187,104,500
Total Net Assets	72,852,101	104,370,700	31,518,599

The School District's combined net assets increased by \$31.5 million to \$104.37 million. Net assets invested in capital assets, net of related debt, account for \$97.2 million of the total net assets; this compares the original cost, less depreciation of the School District's capital assets to the long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets totaling \$95.8 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of the net assets (\$88.7) million was unrestricted. The unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have significant impact on the change in unrestricted net assets from year to year.

OAKLAND UNIFIED SCHOOL DISTRICT**Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007****Statement of Activities****Table 2: Statement of Activities**

Table 2 provides a summary of the School District's Activities for the year ended June 30, 2007 in comparison to June 30, 2006.

Table 2
Statement of Activities
June 2006 - June 2007

Revenues	June 2006	June 2007	Net Change
Program Revenues			
Charges for Services	13,717	-	(13,717)
Operating Grants and Contributions	175,870,708	205,888,606	30,017,898
Capital Grants and Contributions	33,305,047	-	(33,305,047)
Total Program Revenue	209,189,472	205,888,606	(3,300,866)
General Revenues			
Taxes Levied for General Purposes	78,461,386	71,116,094	(7,345,292)
Taxes Levied for Special Purposes	23,352,836	19,679,285	(3,673,551)
Taxes Levied for Debt Service	26,119,846	31,125,862	5,006,016
Federal and State Aid not Restricted for Spec. Purposes	178,809,002	191,560,132	12,751,130
Interest & Investment Earnings	3,426,038	7,149,424	3,723,386
Interagency Revenue	10,380,146	433,114	(9,947,032)
Special and Extraordinary Items	7,454,326	715,629	(6,738,697)
Miscellaneous	10,058,896	11,782,689	1,723,793
Total General Revenue	338,062,476	333,562,229	(4,500,247)
Total Revenue	547,251,948	539,450,835	(7,801,113)
Expense			
Instruction	239,936,982	247,625,862	7,688,880
Instruction Related Services	73,286,399	84,551,752	11,265,353
Pupil Support Services	45,397,314	45,573,645	176,331
General Administrative	24,135,012	25,078,044	943,032
Interest on Long-term Debt	24,039,638	28,775,249	4,735,611
Plant Services	42,811,923	41,824,338	(987,585)
Other	29,983,011	36,502,590	6,519,579
Total Expenses	479,590,279	509,931,480	30,341,201

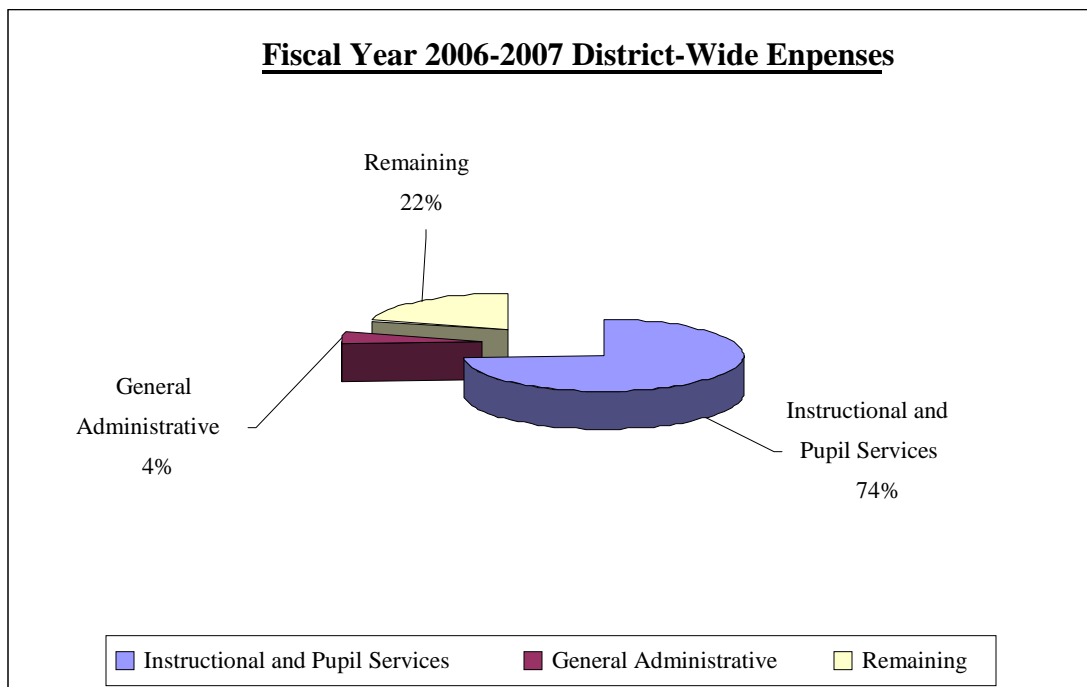
OAKLAND UNIFIED SCHOOL DISTRICT

Management’s Discussion and Analysis For Fiscal Year Ended June 30, 2007

Change in Net Assets	67,661,669	29,519,355	(38,142,314)
Net Assets - Beginning	(10,358,961)	72,852,101	83,211,062
Restatement	15,549,393	1,999,244	(13,550,149)
Net Assets - Ending	72,852,101	104,370,700	31,518,599

Chart 1: District-wide expenses 2006-07

Chart 1 provides a ratio of 2006-07 District-wide expenses by category as a % of total expenses.



The District’s change in net asset for fiscal year ending June 30, 2007 increased by \$31.5 million.

The District’s expenses for instructional and pupil services represented 74% of total expenses. The purely administrative activities of the District accounted for 4% of total costs. The remaining 22% was spent in the areas of plant services, facility acquisitions and construction, ancillary services, interest on long-term debt and other outgo.

OAKLAND UNIFIED SCHOOL DISTRICT**Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007****THE DISTRICT'S FUNDS****General Governmental Function****Table 3: Summary of Revenues for Governmental Function**

The following schedule represents a summary of the general operating fund, special revenue, capital projects fund, and debt service fund revenues for the fiscal year ended June 30, 2007, and the increase and decrease (in amount and percentage) in relations to prior year amounts.

Table 3: Summary of Revenues For Governmental Function

	2005-06 Fiscal Year	2006-07 Fiscal Year	Percent of Total	Increase (Decrease) From Prior Fiscal Year	Percent Increase (Decrease) From Prior Fiscal Year
Revenue Limit Revenue	234,721,800	234,578,594	43.54%	(143,206)	-0.061%
Federal	77,616,836	77,855,308	14.45%	238,472	0.307%
Other State	139,849,319	138,005,817	25.62%	(1,843,502)	-1.318%
Other Local	87,609,666	88,295,485	16.39%	685,819	0.783%
Total Revenue	539,797,621	538,735,204	100%	(1,062,417)	-0.197%

The District's decrease in total revenues was largely due to the decrease in other local and Revenue Limit sources. The District's declining enrollment resulted in the decrease in revenue limit sources.

Table 4: Summary of Expenditures by Object Code

The following schedule represents a summary of the general operating fund, special revenue, capital projects fund, and debt service fund expenditures for the fiscal year ended June 30, 2007, and the increase and decrease (in amount and percentage) in relations to prior year amounts.

Table 4: Summary of Expenditures by Object Code

	2005-06 FY	2006-07 FY	Percent of Total	Increase (Decrease) From Prior FY	Increase (Decrease) Prior FY
Certificated Salaries	175,915,288	179,909,537	33.46%	3,994,249	0.023
Classified Salaries	65,197,471	67,316,411	12.52%	2,118,940	0.033
Employee Benefits	84,189,289	86,085,223	16.01%	1,895,934	0.023
Book and Supplies	32,094,994	38,573,489	7.17%	6,478,495	0.202
Services, Other					
Operational Expenses	81,239,367	81,435,438	15.15%	196,071	0.002

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Capital Outlay	81,391,345	45,182,888	8.40%	(36,208,457)	(0.445)
Debt Service	31,133,158	39,166,290	7.28%	8,033,132	0.258
Total Expenditures	551,160,912	537,669,276	100%	(13,491,636)	(0.024)

Total District expenses decreased over the prior year due the significant decrease in the capital outlay expense of \$36.2 million. Expenses other than Capital Outlay increased by about \$22.7 million.

Table 5: Inter-fund Transfers

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	4,361,756	36,384,258
Special Reserve Fund for Other than Capital Outlay	32,816,816	2,094,903
Adult Education	279,123	-
Child Development	-	361,756
Cafeteria Fund	361,756	206,843
Deferred Maintenance	2,060,010	-
Building Fund	3,308,601	2,060,010
Capital Facilities	-	5,293,716
Debt Service Fund	3,213,424	-
Total	46,401,486	46,401,486

The District makes the above transfers between funds: to provide a state required deferred maintenance match paid for by the building fund, to pay for child development's payment to the cafeteria fund for food services, to transfer funds from the general fund to the debt service fund to pay for the District's debt obligations and transfer of pass through grants to charter schools.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 6: Capital Assets at Year-end (Net of Depreciation)

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 1, 2007</u>
Governmental Activities				
Land	17,661,940	20,723	-	17,682,663
Site Improvements	33,195,719	2,830,145	-	36,025,864
Buildings	434,385,255	54,368,398		488,753,653
Machinery & Equipment	15,096,757	1,248,650	(4,596,420)	11,748,987
Construction in Progress	178,911,509		(11,822,197)	167,089,312
Total at Historical Cost	679,251,180	58,467,916	(16,418,617)	721,300,479

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Less: Accumulated Depreciation

Buildings	(152,536,226)	(9,161,305)		(161,697,531)
Improvements	(16,314,926)	(1,047,389)		(17,362,315)
Equipment	(9,844,456)	(958,391)	4,057,907	(6,744,940)
Total Accumulated Depreciation	(178,695,608)	(11,167,085)	4,057,907	(185,804,786)
Total Capital Assets, Net	500,555,572	47,300,831	(12,360,710)	535,495,693

The District had not updated its capital assets since fiscal year 2001-2002. The significant change in capital assets is the result of the District's updating all of assets as of fiscal year ending June 30, 2007.

Table 7: Outstanding Long-term Debt at Year End

	Balance July 1, 2006	Additions	Deductions	Adjustment	Balance June 1, 2007	Due Within One Year
Bonds and Notes Payable:						
General Obligation Bonds	455,392,974	131,143,868	(6,415,000)	-	580,121,842	13,790,000
State School Building Loans	80,882	-	(33,578)	-	47,304.00	12,974
Certificate of Participations	24,550,000	-	(2,635,000)	-	21,915,000	2,635,000
Emergency Apportionment Loan	59,850,000	35,000,000	(4,355,922)	-	90,494,078	4,433,371
Total Bonds and Notes Payable	539,873,856	166,143,868	(13,439,500)	-	692,578,225	20,871,345
Other Liabilities:						
Self Insurance Obligations	43,250,807				43,250,807	-
Compensated Absences	3,479,149	61,766			3,540,915	-
Charter School Revolving Loan	233,333		(133,333)		100,000	50,000
Total Other Liabilities	46,963,289	61,766	(133,333)	-	46,891,722	50,000
Government Activities						
Long-term Liabilities	586,837,145	166,205,634	(13,572,833)	-	739,469,948	20,921,345

During fiscal year 2006-07 the District issued \$166 million of General Obligations bond and paid down \$13.5 million resulting in a net increase of \$153 million in Government Activities Long Term Debt. Details of general long-term obligations are presented in the accompanying footnotes to the financial statements.

Notes to Financial Statements

The Notes to Financial Statements complement the financial statements by describing qualifying factors and changes throughout the fiscal year.

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

BUDGETARY HIGHLIGHTS

Annual Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America for the General, Special Revenue and Capital Projects funds.

The appropriated budget is prepared by fund and account. Certain funding allocations (primarily Federal and State programs) are made to the schools.

The following is summary comparison of the original and final budget and actuals for the General Fund for the year ended June 30, 2007:

- Federal Revenues decreased by \$12.6 million from the final budget to the actual due to carryover (deferred revenue) to subsequent fiscal year.
- Other Local Revenues decreased by \$32.3 million from the final budget to the actual due to carryover (deferred revenue) to subsequent fiscal year.
- The District budgeted total expenditures were \$473.9 million and the actual expenditures were only \$428.5 million. The majority of the unexpended funds were due to significant carryover of unexpended funds and other restricted grants.
- For Books and Supplies as well as Services and Other Expenditures, prior carry-overs were not loaded into the budget until 1st Interim. This explains the variances between the original and final budgets of \$14.5 million and \$42.9 million respectively for these object groups.
- All Other Financing Sources variance of \$35.7 million is due to the draw down of the remaining amount (\$35 million) of the State Emergency apportionment Loan of \$100 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's cost of living adjustment for next year's budget is 4.53%.
- Revenue Limit ADA is anticipated to be 37,122, which is a decrease of 4% over the prior year.

The District is planning to issue a general obligation refunding bond in the amount of \$199.2 million to retire part of the outstanding general obligation bonds.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's economy is a major factor affecting the District's future. The financial well being of the District is tied in large measure to the state funding formula and declining enrollment. The State's economic condition indicates an improvement in the District's revenue. Any improvement in State Aid funding will materialize when the current year enrollment exceeds the

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

prior year Average Daily Attendance. The future forecast requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Vernon Hal,
Chief Financial Officer
Oakland Unified School District
1025 Second Ave.
California, CA 94606

Or visit our website at: <http://webportal.ousd.k12.ca.us>

Exhibit 1
Page 1 of 2

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash in county treasury (Note 2)	\$ 305,766,860
Cash in bank(s) (Note 2)	138,550
Revolving cash account (Note 2)	150,000
Cash with a fiscal agent/trustee (Note 2)	600,647
Cash collections awaiting deposit (Note 2)	39,080
Investments	28,000,000
Accounts receivable (Note 4)	41,909,755
Due from grantor governments (Note 4)	70,123
Stores inventories-supplies (Note 1-I 2)	188,109
Other current assets	100,000
Land (Note 6)	17,682,663
Improvement of sites (Note 6)	36,025,863
Buildings (Note 6)	488,753,653
Equipment (Note 6)	11,748,987
Work in progress (Note 6)	167,089,312
Less accumulated depreciation (Note 6)	<u>(185,804,786)</u>
Total assets	<u>\$ 912,458,816</u>
Liabilities	
Accounts payable	\$ 49,965,577
Deferred revenue (Note 1-E.)	14,812,296
Due within one year	
Other general long-term debt (Note 12)	\$ 50,000
General obligation bonds payable (Note 7)	13,790,000
State school building loans payable (Note 11)	12,974
Certificates of participation (COPs) payable (Note 9)	2,635,000
Emergency apportionment loan payable (Note 8)	<u>2,425,000</u>
Total due within one year	18,912,974
Due after one year	
Charter school revolving loan (Note 12)	\$ 74,600
General obligation bonds payable (Note 7)	575,844,656
State school building loans payable (Note 11)	34,454
Certificates of participation (COPs) payable (Note 9)	19,280,000
Emergency apportionment loan payable (Note 8)	84,867,836
Loss reserve	900,000
Self insurance obligation (Note 10)	39,854,807
Compensated absences payable (Note 13)	<u>3,540,916</u>
Total due after one year	<u>724,397,269</u>
Total liabilities	<u>\$ 808,088,116</u>

Exhibit 1
Page 2 of 2

Statement of Net Assets

June 30, 2007

	Governmental Activities
Net Assets	
Invested in capital assets, net of related debt	\$ 97,160,148
Restricted for:	
Special revenues	15,114,009
Capital projects	20,633,171
Debt service	33,741,278
Educational programs	26,045,446
Other purposes (expendable)	338,109
Unrestricted	(88,661,461)
Total net assets	\$ 104,370,700

The notes to the financial statements are an integral part of this statement.

Exhibit 2

Statement of Activities Year Ended June 30, 2007

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 247,625,862	\$ —	\$ 86,937,550	\$ —
Instruction related services:				
Supervision of instruction	44,068,582	—	35,230,113	—
Instructional library, media, and technology	3,352,289	—	1,128,096	—
School site administration	37,130,881	—	7,058,412	—
Pupil services:				
Home-to-school transportation	9,889,691	—	6,484,926	—
Food services	13,522,884	—	12,849,157	—
All other pupil services	22,161,070	—	15,672,652	—
General administration:				
Data processing	5,282,106	—	404,562	—
All other general administration	19,795,938	—	20,777,710	—
Plant services	41,824,338	—	7,697,690	—
Ancillary services	5,126,813	—	4,139,503	—
Community services	384,819	—	—	—
Interest – long-term liabilities	28,775,249	—	—	—
Other outgo	19,880,449	—	7,508,235	—
Depreciation	11,110,509	—	—	—
Total governmental activities	<u>\$ 509,931,480</u>	<u>\$ —</u>	<u>\$ 205,888,606</u>	<u>\$ —</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				\$ 71,116,094
Taxes levied for debt service				31,125,862
Taxes levied for other specific purposes				19,679,285
Federal and state aid not restricted to specific purposes				191,560,132
Interest and investment earnings				7,149,424
Interagency revenue				433,114
Other financing sources				715,629
Miscellaneous				11,782,689
Total general revenues				<u>\$ 333,562,229</u>
Change in net assets				\$ 29,519,355
Net assets-beginning				72,852,101
Audit adjustments (Note 21)				(197,513)
Restatements				2,196,757
Net assets-ending				<u>\$ 104,370,700</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 3

Balance Sheet Governmental Funds June 30, 2007

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash in county treasury (Note 2)	\$ 54,050,827	\$175,976,702	\$ 70,848,659	\$ 300,876,188
Cash in bank(s) (Note 2)	138,550	—	—	138,550
Revolving cash account (Note 2)	150,000	—	—	150,000
Cash with a fiscal agent/trustee (Note 2)	—	—	100,647	100,647
Cash collections awaiting deposit (Note 2)	22,253	—	16,828	39,081
Investments	—	—	28,000,000	28,000,000
Accounts receivable (Note 4)	28,379,788	1,881,460	8,662,733	38,923,981
Due from grantor governments (Note 4)	—	—	70,123	70,123
Due from other funds (Note 5)	3,367,745	145,623	771,804	4,285,172
Stores inventories-supplies	—	—	188,109	188,109
Total assets	<u>\$ 86,109,163</u>	<u>\$178,003,785</u>	<u>\$108,658,903</u>	<u>\$ 372,771,851</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 28,533,583	\$ 4,742,245	\$ 3,162,298	\$ 36,438,126
Due to other funds (Note 5)	318,426	—	3,710,953	4,029,379
Deferred revenue (Note 1-E.)	13,923,994	—	888,302	14,812,296
Loss reserve	900,000	—	—	900,000
Total liabilities	<u>\$ 43,676,003</u>	<u>\$ 4,742,245</u>	<u>\$ 7,761,553</u>	<u>\$ 56,179,801</u>
Fund balances:				
Reserved for				
Revolving cash	\$ 150,000	\$ —	\$ —	\$ 150,000
Stores	—	—	188,109	188,109
Educational programs (legally restricted)	26,045,446	—	—	26,045,446
Unreserved				
Designated for economic uncertainties	13,064,233	—	—	13,064,233
Other designations	5,122,061	—	31,220,782	36,342,843
Undesignated/unappropriated	(1,948,580)	173,261,540	69,488,459	240,801,419
Total fund balances	<u>42,433,160</u>	<u>173,261,540</u>	<u>100,897,350</u>	<u>316,592,050</u>
Total liabilities and fund balances	<u>\$ 86,109,163</u>	<u>\$178,003,785</u>	<u>\$108,658,903</u>	<u>\$ 372,771,851</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 4

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2007

Total fund balances - governmental funds		\$ 316,592,050
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the asset is \$721,300,478 and the accumulated depreciation is \$(185,804,786)		535,495,692
Internal services funds are used by management to charge the costs of insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		(32,167,880)
To recognize accrued interest at year-end.		(12,993,726)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General obligation bonds payable	\$ (589,634,656)	
State school building loan payable	(47,429)	
Certificate of participation payable	(21,915,000)	
Emergency apportionment loan payable	(87,292,836)	
Compensated absences	(3,540,915)	
Charter school revolving loan	(124,600)	
Total long-term liabilities		(702,555,436)
Total net assets-governmental activities		\$ 104,370,700

The notes to the financial statements are an integral part of this statement.

Exhibit 5

**Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007**

	Governmental Fund Types			Total Governmental Funds
	General Fund	Building Fund	Other Governmental Funds	
Revenues:				
Revenue limit sources:				
State apportionments	\$ 148,944,301	\$ —	\$ 12,497,049	\$ 161,441,350
Local apportionments	73,137,244	—	—	73,137,244
Federal	55,031,665	—	22,823,643	77,855,308
Other state	121,731,033	—	16,274,784	138,005,817
Other local revenue	41,515,272	5,035,079	41,745,134	88,295,485
Total revenues	440,359,515	5,035,079	93,340,610	538,735,204
Expenditures:				
Instruction	226,167,503	—	23,021,704	249,189,207
Supervision of instruction	41,914,427	—	2,378,556	44,292,983
Instructional media and technology	3,377,105	—	36,551	3,413,656
School administration	31,177,333	—	6,188,834	37,366,167
Home to school transportation	9,940,050	—	—	9,940,050
Food services	9,907	—	13,581,837	13,591,744
All other pupil services	22,132,937	—	140,978	22,273,915
Data processing services	5,309,003	—	—	5,309,003
All other general administration	17,444,738	—	2,486,613	19,931,351
Plant services	37,412,256	—	4,754,981	42,167,237
Facility acquisition and construction	2,187,818	41,645,783	1,648,889	45,482,490
Ancillary services	5,158,404	—	—	5,158,404
Community services	386,779	—	—	386,779
Debt service:				
Principal	4,355,922	—	8,249,139	12,605,061
Interest	1,523,493	—	25,037,738	26,561,231
Total expenditures	408,497,675	41,645,783	87,525,820	537,669,278
Excess (deficiency) of revenues over (under) expenditures	31,861,840	(36,610,704)	5,814,790	1,065,926
Other financing sources (uses):				
Operating transfers in (Note 5)	4,361,756	3,308,601	38,731,129	46,401,486
All other financing sources	35,715,629	—	3,670,397	39,386,026
Proceeds from sale of bonds	—	130,000,000	—	130,000,000
Transfer between agencies	(19,981,682)	—	—	(19,981,682)
Operating transfers out (Note 5)	(36,384,258)	(2,060,010)	(7,957,218)	(46,401,486)
Total other financing sources (uses)	(16,288,555)	131,248,591	34,444,308	149,404,344
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	15,573,285	94,637,887	40,259,098	150,470,270
Beginning fund balance	25,222,049	78,623,653	60,326,070	164,171,772
Audit adjustments (Note 21)	(23,858)	—	(173,655)	(197,513)
Other Restatements	1,661,684	—	485,837	2,147,521
Fund balances restated-beginning	26,859,875	78,623,653	60,638,252	166,121,780
Fund balances-ending	\$ 42,433,160	\$ 173,261,540	\$ 100,897,350	\$ 316,592,050

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Total net change in fund balances - governmental funds		\$ 150,470,270
<p>Capital outlay: In government funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:</p>		
Expenditures for capital outlay:	\$ 46,645,719	
Depreciation expense:	<u>(11,167,085)</u>	
Net Capital Outlay		35,478,634
<p>Debt services: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:</p>		
		12,605,060
<p>Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Governmental funds report the effect of issuance costs and premiums when debt is first issued; however, these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>		
Proceeds from sale bonds	\$ (130,000,000)	
Premium from sale bonds	(3,670,394)	
Proceeds from emergency apportionment loan	(35,000,000)	
Other financing sources	<u>—</u>	
Net effect of bond debt		(168,670,394)
<p>Other financing sources</p>		
<p>Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and the issue costs amortized for the period is:</p>		
Issue costs incurred during the period	\$ —	
Issue costs amortized during the period	<u>—</u>	
Net debt issue costs		—
<p>In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). For the year ended June 30, 2007, a vacation earned exceeded the amounts used by:</p>		
		(61,766)
<p>Internal services funds are used by the district to charge the costs of insurance to the individual funds. The net income of the internal service funds is reported with governmental activities.</p>		
		2,596,964

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in
Fund Balances—Governmental Funds
to the Statement of Activities
Year Ended June 30, 2007**

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(538,513)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(12,993,728)
To reverse prior year accrual of interest expense:	10,632,828
Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization or premium or discount for the period is:	—
Total change in net assets – governmental activities	\$ 29,519,355

The notes to the financial statements are an integral part of this statement.

Exhibit 7

**Statement of Fund Net Assets
Proprietary Funds
June 30, 2007**

	Internal Service Fund
	<u>Self-Insurance Fund</u>
Assets	
Cash in county treasury	\$ 4,890,673
Cash with a fiscal agent/trustee	500,000
Accounts receivable	304,409
Due from other funds	2,871,960
Other current assets	<u>100,000</u>
Total assets	<u>8,667,042</u>
Liabilities	
Accounts payable	533,722
Due to other funds	446,393
Self insurance obligation	<u>39,854,807</u>
Total liabilities	<u>40,834,922</u>
Net Assets	
Other purposes (expendable)	—
Undesignated/unappropriated	<u>(32,167,880)</u>
Total net assets	<u>\$ (32,167,880)</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 8

**Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007**

	Internal Service Fund
	<u>Self-Insurance Fund</u>
Operating revenues:	
In-district premiums/contributions	\$ 17,582,279
Total operating revenues	<u>17,582,279</u>
Operating expenses:	
Salaries and wages and related expenses	350,858
Materials and supplies	206
Professional services and claims payments	<u>14,693,320</u>
Total operating expenses	<u>15,044,384</u>
Operating income (loss)	2,537,895
Non-operating revenue:	
Interest	<u>59,069</u>
Change in net assets	<u>2,596,964</u>
Total net assets-beginning	<u>(34,764,844)</u>
Total net assets-ending	<u>\$ (32,167,880)</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 9

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007**

	Internal Service Fund
	<u>Self-Insurance Fund</u>
Cash flows from operating activities:	
Cash received from premiums	\$ 14,900,919
Cash paid for professional services and claims payments	(11,828,965)
Materials and supplies	(206)
Operating transfers out	—
Cash paid to employees for salaries and benefits	<u>(350,858)</u>
Net cash provided (used) by operating activities	2,720,890
Cash flow from investing activities:	
Interest income paid	<u>59,069</u>
Net cash provided (used) by investing activities	59,069
Net increase (decrease) in cash	<u>2,779,959</u>
Cash—beginning	<u>2,110,714</u>
Cash—ending	<u>\$ 4,890,673</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 2,537,895
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Decrease in receivables	2,667,796
Increase in due from other funds	(2,681,360)
Increase in accounts payable	26,049
Increase in due to other funds	170,510
Prior year correction	<u>—</u>
Net cash provided (used) by operating activities	<u>\$ 2,720,890</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 10

Statement of Fiduciary Net Assets

June 30, 2007

	Payroll Trust/Warrant Pass-Through Fund
Assets	
Cash in county treasury	\$ 9,858,537
Total assets	<u>\$ 9,858,537</u>
Liabilities	
Accounts payable	\$ 2,681,360
Due to student groups/other agencies	<u>7,177,177</u>
Total liabilities	<u>\$ 9,858,537</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Year Ended June 30, 2007

NOTE 1— SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The Oakland Unified School District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's California School Accounting Manual. The accounting policies of the district conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The district is the level of government primarily accountable for activities related to public education in the City of Oakland, California, in Alameda County. The Advisory Board consists of seven elected officials.

Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

C. Implementation of Accounting Pronouncements

Effective July 1, 2001, the district adopted GASB Statement No. 34 (GASB 34), Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and GASB Statement No. 38 (GASB 38), Certain Financial Statement Note Disclosures. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses the full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the district's financial activities is also required by GASB 34. Furthermore, the district's notes to the financial statements incorporate modifications as required under GASB 38.

The management discussion and analysis (MD&A) section of the audit report is required supplementary information. The MD&A is prepared by management and should provide an analysis of the school district's overall financial position and results of operations.

Additionally, the district adopted the provisions of GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. This interpretation impacts the fund level financial statements required by GASB 34, but has no direct impact on the government-wide financial statements.

D. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the district and its component units. Internal service fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The district does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the district. Interest on general long-term liabilities is considered a direct expense and is reported separately on the Statement of Activities.

Fund Financial Statements:

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues—Exchange and Non-Exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the district, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the district receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used

or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the district on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The district's accounts are organized into major, nonmajor, proprietary, and fiduciary funds as noted below.

Major Governmental Funds:

The *General Fund* is the general operating fund of the district. It is used to account for all financial resources except those accounted for in another fund as required.

The *Building Fund* exists primarily to account separately for proceeds from the sale of bonds. Other authorized revenues to the Building Fund are (1) proceeds from the sale or lease with option to purchase of real property, and (2) revenue from rentals and leases of real property specifically authorized by the governing board for deposit into the fund.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district closed its Charter School Fund during the year ending June 30, 2007 by transferring the fund balance to the General Fund. The district maintains five nonmajor special revenue funds.

- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's food service program.
- The Child Development Fund is used to account for resources committed to child development programs maintained by the district.
- The Adult Education Fund is used to account for resources committed to adult education programs maintained by the district.
- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.
- The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund money for general operating purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long term debt principal, interest, and related costs. The district maintains three nonmajor debt service funds:

- The Bond Interest and Redemption Fund is used for the repayment of bonds.
- The Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term debt.
- The Tax Override Fund is maintained by the County Treasurer and is used for repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Capital Project Funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The district maintains four nonmajor capital project funds:

- The State School Building Lease-Purchase Fund is used primarily to account separately for state apportionments provided by Education Code sections 17000-17039.
- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
- The County School Facilities Fund is established to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants.
- The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes.

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost reimbursement basis within the district. The district maintains one internal service fund.

- The Self-Insurance Fund is used to separate moneys received for self-insurance activities from other operating funds of the district. The district established the self-insurance fund to account for worker's compensation and dental self-insurance activity.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains an agency fund for the student body and subsidiary accounts. However, the student body or subsidiary accounts have not been presented in the financial statements as noted in the independent auditor's report.

- The Payroll Trust/Warrant Pass-Through Fund exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, credit union, and other contributions.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the district's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The district's governing board satisfied these requirements.

These budgets are revised by the district's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the general fund in the financial statements.

H. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

I. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Deposit Insurance Corporation.

In accordance with Education Code section 41001, the district maintains substantially all of its cash in the Alameda County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These

pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

2. Stores Inventories

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets.

The district no longer maintains a stores inventory, although a value for stores inventory is reported in the financial statements. We did not make a determination of the district’s valuation method for stores inventory (see Finding 07-08).

3. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets’ lives are not capitalized, but are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

<u>Asset Life</u>	<u>Estimated Useful Life In Years</u>
Land	N/A
Improvements	20
Building	25 to 50
Equipment	5 to 20
Furniture and vehicles	8

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the district. Full-time district employees are entitled to 10 to 25 vacation days a year, depending upon length of service, for which up to 30 days may be carried over to the next year. The district’s labor agreement provides for using vacation before it is earned.

The district has a policy of allowing employees to accumulate sick leave. Accumulated sick leave benefits are not recognized as liabilities of the district. The district’s policy is to record sick leave as an operating expense in the period taken

since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventories reflect the portions of the fund balance represented by revolving fund cash and stores inventories, respectively. These amounts are not available for appropriation and expenditure as of the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Revenue Limit/Property Tax

The district's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

Alameda County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Revenue and Taxation Code Section 4705. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll—approximately October 1 of each year.

The Alameda County Auditor-Controller reports the amount of the district's allocated property tax revenue to the California Department of Education (CDE). Property taxes are recorded as local revenue limit sources by the district.

The CDE reduces the district's entitlement by the district's local property tax revenue. The balance is paid from the state general fund, and is known as the state apportionment.

The district's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the district is entitled to by law. This amount is multiplied by the second period ADA to derive the district's total entitlement.

In November 2001, the voters within the district approved the continuation of the Measure B parcel tax until June 30, 2007, increasing the rate from \$75 per parcel to \$123 per each parcel of taxable land. The district received approximately \$19,679,285 and \$19,624,532 of Measure B parcel tax for the years ended June 30, 2007, and 2006, respectively.

J. Self-Insurance Internal Service Fund

The district is self-insured for workers' compensation up to \$350,000 per occurrence, and for general liability up to \$1,000,000 per occurrence. The general fund is charged premiums by the self-insurance fund, which is accounted for as an internal service fund. The district participates in joint power agreements which provide excess liability and excess workers' compensation coverage to the district. The district also participates in a joint powers agreement for its property insurance coverage. On the government-wide financial statements, the internal service fund activity is eliminated to avoid doubling of revenues and expenditures.

NOTE 2— CASH AND INVESTMENTS

Cash on Hand, in Banks, and in Revolving Fund

Cash at June 30, 2007 consisted of the following:

Deposits:	
Cash on hand	\$ 39,080
Cash in banks	\$ 138,550
Cash in revolving fund	\$ 150,000
Pooled funds:	
Cash in county treasury	\$ 315,625,397
Cash with fiscal agent	\$ 600,647

Deposits – Custodial Credit Risk

The Federal Deposit Insurance Corporation (FDIC) insures cash balances held in banks and revolving funds, up to \$100,000. At June 30, 2007, the carrying account of the revolving fund was \$150,000. As the bank accounts were not properly reconciled, the bank balance could not be verified. Therefore, we could not determine the balance in excess of the amount insured by FDIC. The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. Funds held in excess of the amount insured by FDIC, were covered by collateral held in the pledging financial institutions' trust departments in Oakland Unified School District.

Pooled Funds

In accordance with Education Code section 41001, the County Office of Education maintains substantially all of its cash in the Alameda County Treasury. The county pools these funds with those of school districts and other agencies in the county and invests the cash. These pooled funds of \$315,625,397 are carried at cost on the district books. The fair market value of the cash in this account as of June 30, 2007, as provided by the pool sponsor, was \$314,929,779. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The county is restricted by Government Code section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Alameda County issues a separate comprehensive annual financial report that includes a financial report and required supplemental information. Copies of the Alameda County financial report may be obtained from the Alameda County Auditor-Controller, Alameda County, 1221 Oak Street, Oakland, CA 94612.

Since the County Office of Education's deposits are maintained in a recognized pooled investment fund under the care of a third party and the County Office's share of the pool does not consist of specific, identifiable investment securities owned by the County Office, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable State laws, the Alameda County Treasurer may invest in derivative securities. However, at June 30, 2007, the Alameda County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Cash with Fiscal Agent

- \$100,647 represents cash held by a bank as trustee for the repayment of Certificates of Participation, General Obligation Bonds, and Community Facilities District Bonds. This amount is fully collateralized.
- \$500,000 represents cash held by JT2 Integrated Resources as the district's worker's compensation administrator.

Interest Rate Risk

The district does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the district had no significant interest rate risk related to cash and investments held.

Credit Risk

The district does not have a formal investment policy that limits its investment choices other than the limitations of State law.

Concentration of Credit Risk

The district does not place limits on the amount it may invest in any one issuer. At June 30, 2007, the district had no concentration of credit risk.

NOTE 3— EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2007, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
<u>Major Funds</u>	
General fund:	
Other outgo	\$ 145,880

These amounts were offset by appropriations that were underspent.

NOTE 4— ACCOUNTS RECEIVABLE/DUE FROM GRANTOR GOVERNMENTS

Accounts receivable are due from private persons, firms, or corporations. Accounts receivable will be limited to auditable amounts (usually based on contractual agreements); to amounts billed but not received; and, within provision of law, to amounts that were earned by the close of the fiscal year and that might have been received and deposited in the county treasury by that date except for the lack of time for settlement.

Due from grantor governments is used to record amounts receivable from state and federal agencies. It represents amounts earned/allocated to a school district from state sources or earned under a federal financial assistance program in excess of cash receipts during the fiscal year.

This amount would also be used if the grantors are other governmental entities, including counties, cities, and other school districts.

NOTE 5— INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Temporary loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Pursuant to Education Code section 42603 interfund loans are expected to be repaid within the same fiscal year or in the following year if the transfer takes place within 120 days of a fiscal year-end.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2007, interfund receivables and payables were as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General fund	\$ 3,367,745	\$ 318,426
Charter schools	—	2,094,903
Adult education	23,893	1,293
Child development	16,886	639,341
Cafeteria	407,567	651,335
Deferred maintenance	323,458	—
Building fund	145,623	—
Capital facilities	—	623

County school facilities	—	323,458
Self insurance	2,871,960	446,393
Warrant pass-through	—	2,681,360
Total	<u>\$ 7,157,132</u>	<u>\$ 7,157,132</u>

Interfund receivables/payables are established primarily to recognize the transfer of costs between funds after the close of cash for the fiscal year.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2006-07 were as follow.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 4,361,756	\$ 36,384,258
Special reserve fund for other than capital outlay	32,816,816	2,094,903
Adult education	279,123	—
Child development	—	361,756
Cafeteria	361,756	206,843
Deferred maintenance	2,060,010	—
Building fund	3,308,601	2,060,010
Capital facilities	—	5,293,716
Debt service fund	3,213,424	—
Total	<u>\$ 46,401,486</u>	<u>\$ 46,401,486</u>

Interfund transfers consisted of the following items:

- Transfer of \$2,060,010 from the General Fund to the Deferred Maintenance Fund for state matching.
- Transfer of \$2,060,010 from the Building Fund to the General Fund for state matching of deferred maintenance.
- Transfer of \$361,756 from the Child Development Fund to the Cafeteria Fund for child care food program.
- Transfer of \$1,228,309 from the General Fund to the Debt Service Fund for Certificates of Participation loan payment.
- Transfer of \$279,123 from the General Fund to the Adult Education Fund of one-time discretionary block grant.
- Transfer of \$206,843 from the Cafeteria Fund to the General Fund for food services loan payment.
- Transfer of \$3,308,601 from the Capital Facilities Fund to the Building Fund for debt payment.
- Transfer of \$1,985,115 from the Capital Facilities Fund to the Debt Service Fund for debt payment.

- Transfer of \$32,816,816 from the General Fund to the Special Reserve Fund for other than capital outlay fund - remaining balance (final draw-down of \$35,000,000) of emergency apportionment loan.
- Transfer of \$2,094,903 from the Special Reserve Fund for other than capital outlay fund to the General Fund for loan payment on the emergency apportionment loan.

NOTE 6— CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2007, is shown below:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 17,661,940	\$ 20,723	\$ —	\$ 17,682,663
Work-in-process	178,911,509	—	(11,822,197)	167,089,312
Total capital assets, not being depreciated	<u>196,573,449</u>	<u>20,723</u>	<u>(11,822,197)</u>	<u>184,771,975</u>
Capital assets being depreciated				
Buildings	434,385,255	54,368,398	—	488,753,653
Improvements	33,195,719	2,830,145	—	36,025,864
Equipment	15,096,757	1,248,650	(4,596,420)	11,748,987
Total capital assets, being depreciated	<u>482,677,731</u>	<u>58,447,193</u>	<u>(4,596,420)</u>	<u>536,528,504</u>
Less accumulated depreciation for:				
Buildings	(152,536,226)	(9,161,305)	—	(161,697,531)
Improvements	(16,314,926)	(1,047,389)	—	(17,362,315)
Equipment	(9,844,456)	(958,391)	4,057,907	(6,744,940)
Total accumulated depreciation	<u>(178,695,608)</u>	<u>(11,167,085)</u>	<u>4,057,907</u>	<u>(185,804,786)</u>
Total capital assets, being depreciated, net	<u>303,982,123</u>	<u>47,280,108</u>	<u>(538,513)</u>	<u>350,723,718</u>
Governmental activities capital assets, net	<u>\$ 500,555,572</u>	<u>\$ 47,300,831</u>	<u>\$(12,360,710)</u>	<u>\$ 535,495,693</u>

Depreciation expense was charged to governmental activities as follows:

Unallocated	\$ 11,167,085
Total depreciation expense	<u>\$ 11,167,085</u>

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. The methods used to compute depreciation have not been identified. See Findings 07-02, 07-03, 07-04, and 07-05.

NOTE 7— GENERAL OBLIGATION BONDS

During the year ended June 30, 1998, the district, under the authorization of Measure C, issued Series B, C, and D bonds. In July 1997, the district issued \$9,999,977 in Series B capital appreciation bonds (CABs) at interest rates ranging from 4.4% to 8.1% with interest and principal payments due annually beginning on August 1, 2001, with a maturity date of August 1, 2021. In May 1998, the district issued Series C bonds to refund bonds issued in 1995. Series C bonds are comprised of \$27,045,000 in current interest bonds (CIBs) with a maturity date of August 1, 2019, and \$8,916,738 in CABs with a maturity date of August 1, 2012. The interest rates on the current interest bond ranges between 5% and 5.5% with

interest payments beginning August 1, 1998, and principal payments on August 1, 2013. The CABs have interest rates ranging between 4.1% and 5.25% with interest and principal payments beginning August 1, 2000. In addition, in May 1998, the district issued \$5,999,277 in Series D CABs with interest rates ranging from 4.6% to 6% with interest and principal payments beginning August 1, 1999, with a maturity date of August 1, 2022.

During the year ended June 30, 1999, the district, under the authorization of Measure C, issued \$10,000,000 in Series E current interest bonds at interest rate ranging from 4% to 7% with principal payments due annually beginning August 1, 2000, with a maturity date of August 1, 2023. Interest payments are due semiannually beginning February 1, 2000. The district proceeds from the Series E issuance were \$9,900,000, net of \$100,000 in bond issuance costs.

During the year ended June 30, 2000, the district under the authorization of Measure C, issued \$75,000,000 in Series F current interest bonds at interest rates ranging from 5.25% to 6%, with principal payments due annually beginning on August 1, 2001, with a maturity date of August 1, 2024. Interest payments are due semi-annually beginning February 1, 2001. The district proceeds per the Series F issuance were \$74,900,000, net of \$100,000 in bond issuance costs.

During the year ended June 30, 2001, the district, under the authorization of Measure C, and Measure A, issued \$100,215,000 in Series 2001 current interest bonds at interest rates ranging from 4.25% to 5.5% with principal payments due annually beginning on August 1, 2002, with a maturity date of August 1, 2025. Interest payments are due semi-annually beginning February 1, 2002. The district proceeds from the Series 2001 issuance were \$100,065,000, net of \$150,000 in bond issuance cost.

During the year ended June 30, 2002, the district, under the authorization of Measure C and Measure A, issued \$100,000,000 in Series 2002 current interest bonds at interest rates ranging from 2.4% to 5.25% with principal payments due annually beginning on August 1, 2005, with a maturity date of August 1, 2026. Interest payments are due semi-annually beginning February 1, 2003. The district proceeds from the Series 2002 issuance were \$100,000,000.

During the year ended June 30, 2006, the district, under the authorization of Measure A, issued \$141,000,000 in Series 2005 current interest bonds, at interest rates ranging from 2.75% to 4.19% with principal payments due annually beginning August 1, 2006, with a maturity date of August 1, 2030. Interest payments are due semi-annually beginning February 1, 2006. The district received \$146,562,496 from this Series 2006 issuance, net of \$1,891,830 issuance cost.

During the year ended June 30, 2007, the district, under the authorization of Measure B, issued \$130,000,000 in Series 2006 current interest bonds at interest rates ranging from 3.43% to 4.46% with principal payments due annually beginning on August 1, 2007, with a maturity date of August 1, 2031. Interest payments are due semi-annually beginning February 1, 2003. The district received \$132,453,230 from this Series 2006 issuance, net of \$1,217,167 issuance cost.

The total remaining balance for all bonds outstanding related to Measure C and Measure A as of June 30, 2007, was \$580,121,842. In addition, accreted interest as of June 30, 2007, on the CABs of \$8,664,977 will be added to the principal balance.

In prior years, the district defeased General Obligation Bonds, Series A issued in 1995 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. On June 30, 2007, no bonds outstanding are considered defeased.

The outstanding general obligation bond debt of the district as of June 30, 2007, is as follows:

Bond	Interest Rate	Date of Issue	Maturity Date	Amount of Original Issue	Outstanding July 1, 2006	Issued Current Year	Redeemed During Year	Bonds Outstanding June 30, 2007
Measure C:								
Series B(CABs)	4.4-8.10%	07/30/1997	08/01/2021	\$ 9,999,977	\$ 5,334,326	\$ —	\$ 939,514	\$ 4,394,812
Series B(CABs)				—	3,070,022	376,145	500,486	2,945,681
Accreted Interest								
Series C(CIBs)	5-5.50%	05/20/1998	08/01/2019	27,045,000	27,045,000	—	—	27,045,000
Series C(CABs)	4.1-5.25%	05/20/1998	08/01/2012	8,916,738	7,091,483	—	703,191	6,388,292
Series C(CABs)				—	3,489,220	491,155	321,809	3,658,566
Accreted Interest								
Series D(CABs)	4.6-6.0%	05/20/1998	08/01/2022	5,999,277	3,463,399	—	24,638	3,438,761
Series D(CABs)				—	1,799,524	276,568	15,362	2,060,730
Accreted Interest								
Series E(CIBs)	4.0-7.0%	05/20/1999	08/01/2023	10,000,000	9,235,000	—	225,000	9,010,000
Series F(CIBs)	5.25-6.0%	04/01/2000	08/01/2024	75,000,000	61,875,000	—	755,000	61,120,000
Measure C and A:								
Series 2001(CIBs)	4.25-5.50%	06/01/2001	08/01/2025	100,215,000	92,545,000	—	1,355,000	91,190,000
Series 2002(CIBs)	2.4-5.25%	03/01/2002	08/01/2026	100,000,000	99,445,000	—	1,175,000	98,270,000
Series 2005(CIBs)	3.0-5.0%	08/01/2005	08/01/2030	141,000,000	141,000,000	—	400,000	140,600,000
Measure B:								
Series 2006(CIBs)	4.25-5.0%	11/01/2006	08/01/2031	130,000,000	—	130,000,000	—	130,000,000
Totals				\$ 608,175,992	\$ 455,392,974	\$131,143,868	\$ 6,415,000	\$ 580,121,842

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. See Findings 07-02, 07-03, and 07-05.

The annual requirements to amortize the 1997 Series B CABs outstanding as of June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Totals
2008	\$ 924,255	\$ 575,745	\$ 1,500,000
2009	784,053	565,947	1,350,000
2010	628,314	521,686	1,150,000
2011	441,163	418,837	860,000
2012	372,550	402,450	775,000
2013-2017	210,862	264,138	475,000
2018-2022	1,033,614	2,996,386	4,030,000
Totals	\$ 4,394,811	\$ 5,745,189	\$ 10,140,000

Accreted interest of \$2,945,681 has been reflected in the long-term debt balance.

The annual requirements to amortize the 1998 Series C CABs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 837,674	\$ 452,326	\$ 1,290,000
2009	950,832	599,168	1,550,000
2010	1,041,166	768,834	1,810,000
2011	1,126,618	943,382	2,070,000
2012	1,191,003	1,138,997	2,330,000
2013	1,240,999	1,349,002	2,590,001
Totals	<u>\$ 6,388,292</u>	<u>\$ 5,251,709</u>	<u>\$ 11,640,001</u>

Accreted interest of \$3,658,566 has been reflected in the long-term debt balance.

The annual requirements to amortize the 1998 Series C CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ —	\$ 1,431,594	\$ 1,431,594
2009	—	1,431,594	1,431,594
2010	—	1,431,594	1,431,594
2011	—	1,431,594	1,431,594
2012	—	1,431,594	1,431,594
2013-2017	13,950,000	5,850,771	19,800,771
2018-2020	13,095,000	1,092,163	14,187,163
Totals	<u>\$ 27,045,000</u>	<u>\$ 14,100,904</u>	<u>\$ 41,145,904</u>

The annual requirements to amortize the 1998 Series D CABs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 283,013	\$ 146,987	\$ 430,000
2009	226,147	138,853	365,000
2010	233,896	166,104	400,000
2011	123,190	101,810	225,000
2012	178,906	171,094	350,000
2013-2017	260,278	294,722	555,000
2018-2022	1,103,148	2,496,852	3,600,000
2023	1,030,183	2,709,817	3,740,000
Totals	<u>\$ 3,438,761</u>	<u>\$ 6,226,239</u>	<u>\$ 9,665,000</u>

Accreted interest of \$2,060,730 has been reflected in the long-term debt balance.

The annual requirements to amortize the 1999 Series E CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 40,000	\$ 450,178	\$ 490,178
2009	60,000	448,148	508,148
2010	75,000	445,324	520,324
2011	150,000	440,430	590,430
2012	75,000	435,443	510,443
2013-2017	1,430,000	2,000,393	3,430,393
2018-2022	4,050,000	1,429,800	5,479,800
2023-2024	3,130,000	162,250	3,292,250
Totals	<u>\$ 9,010,000</u>	<u>\$ 5,811,966</u>	<u>\$ 14,821,966</u>

The annual requirements to amortize the 2000 Series F CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 820,000	\$ 3,358,313	\$ 4,178,313
2009	1,020,000	3,310,013	4,330,013
2010	1,220,000	3,251,213	4,471,213
2011	1,495,000	3,179,944	4,674,944
2012	1,700,000	3,096,075	4,796,075
2013-2017	12,330,000	13,672,344	26,002,344
2018-2022	21,335,000	9,091,001	30,426,001
2022-2024	21,200,000	1,873,575	23,073,575
Totals	<u>\$ 61,120,000</u>	<u>\$ 40,832,478</u>	<u>\$ 101,952,478</u>

The annual requirements to amortize the 2001 Series 2001 CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 805,000	\$ 4,627,486	\$ 5,432,486
2009	1,050,000	4,581,111	5,631,111
2010	1,285,000	4,522,736	5,807,736
2011	1,610,000	4,450,361	6,060,361
2012	1,845,000	4,363,986	6,208,986
2013-2017	14,965,000	19,922,181	34,887,181
2018-2022	26,965,000	14,774,303	41,739,303
2022-2026	42,665,000	5,111,593	47,776,593
Totals	<u>\$ 91,190,000</u>	<u>\$ 62,353,757</u>	<u>\$ 153,543,757</u>

The annual requirements to amortize the 2002 Series 2002 CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 1,240,000	\$ 4,901,088	\$ 6,141,088
2009	1,350,000	4,855,763	6,205,763
2010	1,190,000	4,809,825	5,999,825
2011	1,085,000	4,765,813	5,850,813
2012	1,260,000	4,718,913	5,978,913
2013-2017	11,160,000	22,410,251	33,570,251
2018-2022	23,170,000	18,105,915	41,275,915
2023-2027	57,815,000	9,039,795	66,854,795
Totals	<u>\$ 98,270,000</u>	<u>\$ 73,607,363</u>	<u>\$ 171,877,363</u>

The annual requirements to amortize the 2005 Series 2005 CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 400,000	\$ 6,634,300	\$ 7,034,300
2009	1,410,000	6,607,150	8,017,150
2010	2,455,000	6,549,175	9,004,175
2011	3,485,000	6,425,225	9,910,225
2012	4,155,000	6,234,225	10,389,225
2013-2017	29,435,000	27,044,125	56,479,125
2018-2022	27,950,000	20,348,550	48,298,550
2023-2027	35,670,000	12,857,500	48,527,500
2028-2031	35,640,000	3,332,375	38,972,375
Totals	<u>\$ 140,600,000</u>	<u>\$ 96,032,625</u>	<u>\$ 236,632,625</u>

The annual requirements to amortize the 2006 Series 2006 CIBs outstanding as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 7,265,000	\$ 3,983,403	\$ 11,248,403
2009	4,910,000	5,592,575	10,502,575
2010	1,135,000	5,396,175	6,531,175
2011	1,630,000	5,350,775	6,980,775
2012	1,260,000	5,285,575	6,545,575
2013-2017	7,110,000	25,631,875	32,741,875
2018-2022	16,175,000	23,675,675	39,850,675
2023-2027	33,150,000	18,399,625	51,549,625
2028-2030	57,365,000	8,507,656	65,872,656
Totals	<u>\$ 130,000,000</u>	<u>\$ 101,823,334</u>	<u>\$ 231,823,334</u>

Accrued Interest, Capital Appreciation Certificates

The following represents interest accruing for the capital appreciation bonds (CABs) as of June 30, 2007. The total accreted value (accrued interest) is the difference between the value of the CABs at June 30, 2007, and the value of the CABs at issuance. The accreted value from July 1, 2007 to June 30, 2008, is calculated by dividing the total accreted value by the number of certificates outstanding as of June 30, 2007.

<u>Certificates Maturing August 1</u>	<u>Accreted Value from July 1, 2006 to June 30, 2007</u>	<u>Certificates Outstanding as of June 30, 2007</u>	<u>Total Accreted Value (Accrued Interest)</u>
<u>Series B CABs</u>			
2007	\$ 1,898.55	300	\$ 569,565.00
2008	1,835.16	270	495,493.20
2009	1,769.74	230	407,040.20
2010	1,702.70	172	292,864.40
2011	1,634.41	155	253,333.55
2012	1,565.26	77	120,525.02
2013	1,495.65	18	26,921.70
2021	967.67	806	<u>779,942.02</u>
Totals			<u>\$2,945,685.09</u>
<u>Series C CABs</u>			
2007	1,733.22	258	\$ 447,170.76
2008	1,679.37	310	520,604.70
2009	1,634.57	362	591,714.34
2010	1,565.59	414	648,154.26
2011	1,506.31	466	701,940.46
2012	1,445.90	518	<u>748,976.20</u>
Totals			<u>\$3,658,560.72</u>
<u>Series D CABs</u>			
2007	1,689.78	86	\$ 145,321.08
2008	1,653.74	73	120,723.02
2009	1,600.78	80	128,062.40
2010	1,555.79	45	70,010.55
2011	1,506.31	70	105,441.70
2012	1,445.90	70	101,213.00
2013	1,378.91	41	56,535.31
2020	957.63	720	689,493.60
2022	860.87	748	<u>643,930.76</u>
Totals			<u>\$2,060,731.42</u>
Total CABs accreted interest			\$8,664,977.23
Less accrued current CABs interest payable			<u>(306,209.85)</u>
Accrued long-term CABs interest payable			<u>\$8,358,767.38</u>

NOTE 8— EMERGENCY APPORTIONMENT LOAN

On January 3, 2003, Senate Bill 39, Chapter 14, Statutes of 2003, was enacted. This legislation provided an emergency apportionment loan to the district of \$100,000,000. The loan provides a floating line of credit. As of June 30, 2003, the district had received \$65,000,000 of the apportionment loan amount. The legislation requires the district repay the loan, including interest at a rate of 1.778%, which is the rate earned by the State's Pooled Money Investment Account on the effective date of Senate Bill 39. The bill provides that the loan be repaid over a 20-year period. The repayment of the loan commenced in FY 2003-04, the fiscal year following the year the loan was made.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 4,433,371	\$ 1,552,066	\$ 5,985,437
2009	4,512,195	1,473,242	5,985,437
2010	4,592,423	1,393,014	5,985,437
2011	4,674,076	1,311,361	5,985,437
2012	4,757,181	1,228,256	5,985,437
2013-2017	25,085,126	4,842,059	29,927,185
2018-2022	27,395,917	2,531,268	29,927,185
2023-2026	<u>11,842,547</u>	<u>427,594</u>	<u>12,270,141</u>
Totals	<u>\$ 87,292,836</u>	<u>\$ 14,758,860</u>	<u>\$ 102,051,696</u>

This schedule agrees with the financial statements but does not agree with Note 14—Long Term Debt—Schedule of Changes. See Findings 07-02 and 07-03.

NOTE 9— CERTIFICATES OF PARTICIPATION

In June 1999, the district issued \$37,325,000 in Certificates of Participation (COPs), Series G, with a variable interest rate estimated to be 4.2% to obtain funds to provide a \$10,000,000 loan to Chabot Science Center. The COPs were used to fund a portion of the costs to build a new state-of-the-art observatory and science center to replace the existing one; to fund new heating, ventilating, and air conditioning systems installed in district schools; and refund the remaining portion of the COPs issued in 1996 in the amount of \$17,930,000 and the COPs issued in 1997 in the amount of \$8,495,000, for a total of \$26,425,000. The net proceeds of \$36,705,000 (after payment of delivery costs such as underwriter, insurance, and other costs) were deposited into two accounts. Of the proceeds, \$10,177,000 was deposited into an acquisition and construction fund for use by the district. The remaining proceeds of \$26,528,000 were deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the defeased certificates. As of June 30, 2007, \$11,730,000 of the principal balance of the certificates issued in June 1999 remained outstanding.

In July 1999, the district issued \$12,565,000 in Variable Rate Demand COPs Series H, with an interest rate of 4.5% to defease an existing capital lease with Honeywell, Inc. This capital lease financed specific equipment relating to energy conservation at several of the district's buildings, and to guarantee the energy savings associated with the installations. As of June 30, 2007, \$7,630,000 of the principal balance of these certificates remained outstanding.

In December 2001, the district issued \$9,450,000 in Variable Rate Demand COPs Series J, with an interest rate of 4.5% to finance a capital lease. The proceeds from the certificates were used to finance the implementation and support of the new accounting system (Bi Tech). As of June 30, 2007, \$2,555,000 of the principal balance of these certificates remained outstanding.

In prior years, the district defeased COPs, Series A, issued in 1996 and Series D, issued in 1997, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. On June 30, 2007, none of the bonds outstanding are considered defeased.

The principal and interest payments of the certificates of participation are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 2,635,000	\$ 536,477	\$ 3,171,477
2009	2,750,000	457,391	3,207,391
2010	2,870,000	377,926	3,247,926
2011	2,000,000	312,553	2,312,553
2012	1,370,000	272,527	1,642,527
2013-2017	5,450,000	859,054	6,309,054
2018-2022	2,830,000	416,603	3,246,603
2023-2025	2,010,000	64,440	2,074,440
Totals	<u>\$ 21,915,000</u>	<u>\$ 3,296,971</u>	<u>\$ 25,211,971</u>

NOTE 10—SELF-INSURANCE OBLIGATION

The Self-Insurance Fund is used to account for the district's self-insurance obligation related to workers' compensation and dental claims. Funding of the self-insurance obligation is based on estimates of the amounts needed to pay prior and current year claims.

At June 30, 2006, a restatement was recorded to recognize the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. An actuarial report from November 2005, provided an estimate for the liability amount at \$39,854,807 as of June 30, 2007. This estimate is only for the workers' compensation portion of the self-insurance obligation and does not include any potential liability for dental claims. An obligation is not reported for potential dental claims because no estimated liability was provided. The district has not recorded all liabilities for self-insurance. See Finding 07-05.

It is important to note that after recognizing only the workers' compensation obligation, the Self-Insurance Fund ended the June 30, 2007 fiscal year with a deficit ending balance of \$(32,167,880).

NOTE 11—STATE SCHOOL BUILDING LOANS

State school building loans bear interest rates ranging from 4.5% to 5.5%. Annual repayment is determined by the State Controller in accordance with Education Code section 16214 which allows the State Controller to compute and deduct the amount to be provided for bond repayment from the assessed valuation of property. The loans are secured by all property purchased with such funds. The remaining balance of this obligation was \$47,305 as of June 30, 2007.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 12,974	\$ 2,551	\$ 15,525
2009	13,677	1,848	15,525
2010	14,221	1,104	15,325
2011	4,644	167	4,811
2012	1,789	—	1,789
Totals	<u>\$ 47,305</u>	<u>\$ 5,670</u>	<u>\$ 52,975</u>

This schedule is compiled from documentation provided. However, this schedule does not agree with the financial statements. See Findings 07-02, 07-03, and 07-05.

NOTE 12—CHARTER SCHOOL REVOLVING LOANS

The Charter School Revolving Loan is a one-time loan to the charter school to help meet initial start-up and operating costs. The loan repayment must commence with the first fiscal year following the fiscal year the charter school receives the loan. The SCO automatically deducts the loan payments from the chartering entity's State School Fund apportionments.

<u>Year Ending June 30</u>	<u>Delores Huerta Learning Academy</u>		<u>Ernestine C. Reems Academy of Technology and Arts</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	\$ 50,000	\$ 1,408	\$ —	\$ —	\$ 51,408
2009	50,000	658	—	—	50,658
Totals	<u>\$ 100,000</u>	<u>\$ 2,066</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 102,066</u>

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. See Findings 07-02, 07-03, and 07-05.

NOTE 13—COMPENSATED ABSENCES

Full-time district employees are entitled to 10 to 25 vacation days a year, depending upon the length of service, for which up to 30 days may be carried over to the next year. The employees' labor agreement provides that vacation may be used prior to being earned. The district has a policy of allowing employees to accumulate sick leave; however, such accumulations are not paid to employees upon termination. The fund used to pay the employees' regular salary is also used to pay compensated absences to that employee. The total long-term portion of compensated absences amount was \$3,540,916, as of June 30, 2007.

NOTE 14—LONG-TERM DEBT—SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2007, is shown below.

Governmental Activities	Balance July 1, 2006	Additions	Deductions	Adjustment	Balance June 30, 2007	Due Within One Year
Bonds and notes payable						
General obligation bonds:						
Current interest bonds	\$ 431,145,000	\$ 130,000,000	\$ (3,910,000)	\$ —	\$ 557,235,000	\$ 10,570,000
Capital appreciation bonds	24,247,974	1,143,868	(2,505,000)	—	22,886,842	3,220,000
State school building loans	80,882	—	(33,578)	—	47,304	12,974
Certificates of participation	24,550,000	—	(2,635,000)	—	21,915,000	2,635,000
Emergency apportionment loan	59,850,000	35,000,000	(4,355,922)	—	90,494,078	4,433,371
Total bonds and notes payable	539,873,856	166,143,868	(13,439,500)	—	692,578,225	20,871,345
Other liabilities:						
Self-insurance obligation	43,250,807	—	—	—	43,250,807	—
Compensated absences	3,479,149	61,766	—	—	3,540,915	—
Charter school revolving loan	233,333	—	(133,333)	—	100,000	50,000
Total other liabilities	46,963,289	61,766	(133,333)	—	46,891,722	50,000
Governmental activities long-term liabilities	\$586,837,145	\$ 166,205,634	\$ (13,572,833)	\$ —	\$739,469,948	\$ 20,921,345

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the State Emergency Apportionment Loan are made from the General Fund. Payments on the State School Building Loan are made from the Tax-Override Fund. Payments on the Certificates of Participation are made from the Debt Service Fund. Payments on the Charter School Loan were previously made from the Charter School Fund and now from the General Fund. Payments on the post-retirement healthcare benefits and compensated absences are made from the fund for which the related employee worked.

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. See Findings 07-02, 07-03, and 07-05.

NOTE 15—GENERAL LONG-TERM DEBT – DEBT SERVICE REQUIREMENTS

The annual requirements to amortize the long-term debt are as follows.

Year Ended Loan	Current Interest Bonds	Capital Appreciation Bonds	State School Building Loans	Certificates of Participation	Self-Insurance Obligation	Emergency Apportionment Loan	Compensated Absences	Charter School Revolving Loan	Total
2008	\$ 35,956,362	\$ 3,220,000	\$ 15,525	\$ 3,171,477	\$ 43,250,807	\$ 5,562,478	\$ 3,540,916	\$ 51,408	\$ 94,768,973
2009	36,626,354	3,265,000	15,525	3,207,391	—	5,568,917	—	50,658	48,733,845
2010	33,766,042	3,360,000	15,325	3,247,926	—	5,698,356	—	—	46,087,649
2011	35,499,142	3,155,000	4,811	2,312,553	—	5,750,350	—	—	46,721,856
2012	35,860,811	3,455,000	1,789	1,642,527	—	5,825,344	—	—	46,785,471
Thereafter	774,088,716	14,990,000	—	11,630,097	—	81,421,872	—	—	882,130,685
Subtotal	951,797,427	31,445,000	52,975	25,211,971	43,250,807	109,827,317	3,540,916	102,066	1,165,228,479
Less amounts representing interest	(394,562,421)	(8,558,158)	(5,670)	(3,296,971)	—	(19,333,239)	—	(2,066)	(425,758,525)
Obligation as of June 30, 2007	\$557,235,006	\$22,886,842	\$ 47,305	\$21,915,000	\$ 43,250,807	\$ 90,494,078	\$ 3,540,916	\$ 100,000	\$ 739,469,954

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. See Findings 07-02, 07-03, and 07-05.

NOTE 16—JOINT VENTURES (JOINT POWERS AGREEMENTS)

The district participates with other Alameda County school districts in the Schools Excess Liability Fund (SELF) joint powers agreement. SELF provides the district with excess workers' compensation and excess general liability insurance. The excess workers' compensation policy was purchased with a retention amount of \$350,000 per occurrence and coverage for individual claims to the statutory maximum per occurrence. The excess liability policy was purchased with a retention amount of \$1,000,000 per occurrence and limit of coverage to \$14,000,000 per occurrence.

The district participates in a joint venture under a joint powers agreement with the Schools Association for Excess Risk (SAFER) for property insurance. The SAFER property insurance coverage limit was \$150,000,000 per occurrence.

The Oakland Unified School District revised its joint powers agreement with the Alameda Unified School District. The Oakland/Alameda Regional Occupation Program (ROP) was terminated and the East Bay Regional Occupation Agency was formed to operate the ROP program. The ROP is governed by an appointed board of directors and is an entity separate and distinct from each of the participant districts. The purpose of the ROP is to provide entry-level occupational training to youths and adults residing in the participant districts.

The ROP is funded by state apportionment moneys based on average daily attendance reported to the State by each participant district. Apportionment moneys are received from the State by the participant districts and transferred to the ROP. ROP classes are held at sites owned by the participant districts and are instructed by personnel who are employees of the participant districts. Accordingly, the ROP itself has no fixed assets and no employees. The participant districts allocate actual certificated and classified salaries, employee benefits, and indirect costs to the ROP.

The district participates in the Chabot Observatory and Science Center (COSC), a joint powers authority established to provide quality science education to members of the Oakland community. The joint powers board consists of the Oakland Unified School District, the East Bay regional parks, and the City of Oakland. Each member has a representative on the board, which governs the management and financing of the COSC.

Financial information for the three joint powers authorities can be obtained from the district at 1025 Second Avenue, Oakland, California 94606.

NOTE 17—CHARTER SCHOOLS

The district has granted and approved various charter schools pursuant to Education Code section 47605.

The charter schools are required pursuant to Education Code section 47605 to have an annual financial audit performed. The charter schools' activities are audited separately and are presented in their own separate audited financial statements. A copy of the audited financial statements may be obtained from the Oakland Unified School District office.

NOTE 18—COMMITMENTS AND CONTINGENCIESState and Federal Allowances, Awards, and Grants

The district has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the district may incur a liability to grantor agencies.

2006 State Compliance Findings

The district's prior year (2005-06) audit indicated that there are several problems regarding non-compliance among the state-funded programs. The district has appealed the results of these findings to the Education Audit Appeals Panel. If the district is not successful in the appeal of these findings, its potential liability could amount to \$2.78 million.

2005 State Compliance Findings

The district's 2004-05 audit indicated that there are several problems regarding non-compliance among the state-funded programs. The district has appealed the results of these findings to the Education Audit Appeals Panel. If the district is not successful in the appeal of these findings, its potential liability could amount to \$8.85 million.

Performance Audits and Attestation Engagements

The district is subject to various reviews and audits, including those requested by the Alameda County Office of Education. If the review or audit discloses deficiencies in the district's financial performance or penalties related to noncompliance with regulations, the district may incur additional liabilities.

Litigation

A material contingent matter was disclosed by outside counsel in one case at June 30, 2007. That case involved the district's appeal of an unfair labor practices decision. This case was disclosed in four prior year audit reports and an accrual for the estimated potential loss of \$900,000 was recorded in the General Fund. The Public Employment Relations Board's (PERB) decision, that was adverse to the district, was made final in May 2006. The parties reached an agreement in early April 2008 on the amount the District owed the employees, \$1,376,805.

Litigation disclosed by internal counsel included the following:

- Brown v. Oakland Unified

This case involves a writ by a teacher for alleged back wages due upon following a termination action. Liability is deemed likely, 75% or greater. The potential damages, inclusive of attorneys' fees and costs, are estimated to be \$150,000.

- Ferguson v. Oakland Unified

The matter, filed in Federal District Court, alleges a history of discriminatory conduct in the placement, assignment and transfer of the teacher from 2000 to 2006. The teacher is currently on administrative leave. In his Amended Complaint, Plaintiff attempted to state

11 separate causes of action ranging from discrimination and retaliation to breach of contract and violation of the Unruh act. The Court granted the District's Motion to Dismiss as to all claims except discrimination and retaliation. Plaintiff declined to file an Amended Complaint. The likelihood of recovery is set at 60%. Damages, inclusive of attorneys' fees and costs, are projected at \$550,000.

- Hawkins (VIA DFEH) v. Oakland Unified

This case involves a former school security officer claiming (through an action brought by the Department of Fair Employment and Housing) that OUSD terminated him because of an actual or perceived physical disability. The likelihood of recovery is set at 60%. Damages, inclusive of attorneys' fees and costs, are projected at \$200,000.

- Hill v. Oakland Unified

This case involves a minor student who alleges that he was injured by an OUSD employee. The likelihood of recovery is set at 90%. Damages are projected at \$50,000.

- Ochoa-Alvarez v. Oakland Unified

This Government Tort Claim involves a middle school student who alleges a classmate punched him in the eye in class and that the substitute teacher did not intervene or assist. Liability is set at 75%. Damages are estimated to be \$150,000.

- Thomas v. Oakland Unified

The writ involves an employee's claim for past wages due to being paid on an incorrect salary schedule. The likelihood of recovery is probable, 50% to 74%. Damages, inclusive of attorneys' fees and costs, are projected at \$40,000.

- Tyska v. Oakland Unified

This Government Tort Claim involves a reporter who alleges that the OUSD Chief of Police injured, verbally abused, and arrested her without cause. Liability is deemed probable, 50% to 74%. Damages are estimated to be \$500,000.

- Warren v. Oakland Unified

This Government Tort Claim involves an autistic elementary student who alleges a teacher abused him. Liability is deemed probable, 50% to 74%. Damages are estimated to be \$100,000.

Construction Commitments

As of June 30, 2007, the district is committed under various capital expenditure purchase agreements for construction and modernization projects in fiscal years 2007-08, 2008-09, 2009-10, 2010-11, and 2011-12 totaling approximately \$56.39 million, \$119.44 million, \$163.30 million, \$102.64 million, and \$24.87 million, respectively. Projects will be funded through the building fund, state school building lease-purchase fund, capital facilities fund, and county school facilities fund.

NOTE 19—EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS); certificated employees are members of the State Teachers' Retirement Systems (STRS); and seasonal, temporary employees, and all employees not covered by another retirement system, are members of the Public Agency Retirement System (PARS).

CalPERS**Plan Description:**

The district contributes to the School Employer Pool under CalPERS, a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy:

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required contribution rate for FY 2006-07 was 9.124% of monthly payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to CalPERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$5,372,478 \$5,637,639, and \$7,580,820, respectively, and equals 100% of the required contribution for those years.

STRS**Plan Description:**

The district contributes to STRS, a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy:

Active plan members are required to contribute 8% of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for FY 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$13,854,238, \$13,987,049, and \$14,440,169, respectively, and equals 100% of the required contributions for those years.

PARS**Plan Description:**

The district contributes to the Public Agency Retirement System (PARS), a plan that covers part-time, seasonal, and temporary employees and all employees not covered by another retirement system. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions. PARS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PARS annual financial report may be obtained from the Chief Financial Officer, Oakland Unified School District, 1025 Second Avenue, Oakland, California 94606.

Funding Policy:

PARS is a defined contribution plan qualifying under Sections 401(a) and 501 of the Internal Revenue Code. This plan is a defined contribution plan which totals 7.5% of an employee's total compensation. The employer contribution amount is 3.75%. The employee before tax contribution amount is 3.75%. The district's contribution to PARS for the fiscal year ended June 30, 2007, was \$326,108.

NOTE 20—POST EMPLOYMENT HEALTH CARE

The district offers health insurance, dental care, and vision benefits only to certain employees who participate in early retirement incentive programs. The employees must meet certain age and service requirements for eligibility. Such benefits are authorized through various district collective bargaining agreements. Annual premiums are based on rates set by the health carriers with whom the district contracts. The amount of the district's contribution toward such annual premiums per employee is determined according to the collective bargaining agreements. The district recognizes the cost of providing those benefits and related administrative costs when paid. As of June 30, 2007, there were 68 retirees receiving benefits. Such payments for retired employees totaled \$361,651 during the year ended June 30, 2007.

NOTE 21—AUDIT ADJUSTMENTS/RESTATEMENTS

	General Fund	Charter School Fund	Deferred Maintenance Fund	Capital Facilities Fund	Cafeteria Fund
Reconciliation of restatements:					
Alameda COE FY 2004-05 Pupil Retention	\$ 203,114	\$ —	\$ —	\$ —	\$ —
KQED Rental Space at Garfield	226	—	—	—	—
To reverse duplicate journal entry	12,419	—	—	—	—
Alameda COE FY 2004-05 4 th qtr lottery	950,583	—	—	—	—
To restate PY entry – lottery	372,598	—	—	—	—
To restate PY entry – lottery	(21,353)	—	—	—	—
Alameda COE FY 2004-05 4 th qtr lottery	83,151	—	—	—	—
To correct 2004-05 revenue	(217,580)	—	—	—	—
To correct Chabot Loan payments	795,340	—	—	—	—
To move fund balance to general fund	94,784	(94,784)	—	—	—
To record 2004-05 audit AJE's	(706,631)	—	—	—	—
To correct tech check	3,675	—	329,949	—	—
Alameda COE FY 2005-06 CA Peer	6,230	—	—	—	—
To restate PY revenue Techer Credential	85,129	—	—	—	—
NSL Seamless	—	—	—	—	1,455
To correct overstated revenue	—	—	—	—	(24,030)
City of Oakland Development School Fees	—	—	—	676,229	—
To restate 3 rd qtr 2005-06 interest	—	—	—	—	—
To correct revenue acct FD 51	—	—	—	—	—
Alameda CO Supplemental Tax	—	—	—	—	—
To restate 3 rd qtr 2005-06 interest	—	—	—	—	—
To correct revenue acct FD 51	—	—	—	—	—
Alameda CO Supplemental Tax	—	—	—	—	—
Total restatements-governmental funds	1,661,685	(94,784)	329,949	676,229	(22,575)
Reconciliation Audit Adjustments:					
To correct 2004-05 accounts receivable	—	—	—	—	—
To reclass AP balance to restatement	—	—	—	—	—
To record 2005-06 ROP adjustment	(23,858)	—	—	—	—
Total audit adjustments – governmental funds	(23,858)	—	—	—	—
Other worksheet adjustments – GOB:					
- bond premium elimination reversed	4,435,261	—	—	—	—
- accumulated depreciation	(3,670,397)	—	—	—	—
- other financing sources elimination reversed	(715,628)	—	—	—	—
- equipment	—	—	—	—	—
Subtotal restatement - other	49,236	—	—	—	—
Total restatement-statement of activities	\$ 1,687,063	\$ (94,784)	\$ 329,949	\$ 676,229	\$ (22,575)

	Debt Services Fund	Bond Interest and Redemption Fund	Tax Override Fund	Child Development Fund	Total
Reconciliation of restatements:					
Alameda COE FY 2004-05 Pupil Retention	\$ —	\$ —	\$ —	\$ —	\$ 203,114
KQED Rental Space at Garfield	—	—	—	—	226
To reverse duplicate journal entry	—	—	—	—	12,419
Alameda COE FY 2004-05 4 th qtr lottery	—	—	—	—	950,583
To restate PY entry – lottery	—	—	—	—	372,598
To restate PY entry – lottery	—	—	—	—	(21,353)
Alameda COE FY 2004-05 4 th qtr lottery	—	—	—	—	83,151
To correct 2004-05 revenue	—	—	—	—	(217,580)
To correct Chabot Loan payments	—	—	—	—	795,340
To move fund balance to general fund	—	—	—	—	—
To record 2004-05 audit AJE's	—	—	—	—	(706,631)
To correct tech check	—	—	—	—	333,624
Alameda COE FY 2005-06 CA Peer	—	—	—	—	6,230
To restate PY revenue Techer Credential	—	—	—	—	85,129
NSL Seamless	—	—	—	—	1,455
To correct overstated revenue	—	—	—	—	(24,030)
City of Oakland Development School Fees	—	—	—	—	676,229
To restate 3 rd qtr 2005-06 interest	—	—	—	—	—
To correct revenue acct FD 51	—	—	—	—	—
Alameda CO adjustment to fund balance	—	218,000	—	—	218,000
To restate 3 rd qtr 2005-06 interest	(474,365)	—	—	—	(474,365)
To correct revenue acct FD 51	(146,625)	—	—	—	(146,625)
Alameda CO Supplemental Tax	—	—	7	—	7
Total restatements-governmental funds	<u>(620,990)</u>	<u>218,000</u>	<u>7</u>	<u>—</u>	<u>2,147,521</u>
Reconciliation Audit Adjustments:					
To correct 2004-05 accounts receivable	—	—	—	(173,655)	(173,655)
To reclass AP balance to restatement	—	—	—	—	—
To record 2005-06 ROP adjustment	—	—	—	—	(23,858)
Total audit adjustments – governmental funds	<u>—</u>	<u>—</u>	<u>—</u>	<u>(173,655)</u>	<u>(197,513)</u>
Other worksheet adjustments – GOB:					
- compensated absences	—	—	—	—	4,435,261
- accumulated depreciation	—	—	—	—	(3,670,397)
- improvement of sites	—	—	—	—	(715,628)
- equipment	—	—	—	—	—
Subtotal restatement - other	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>49,236</u>
Total restatement-statement of activities	<u>\$ (620,990)</u>	<u>\$ 218,000</u>	<u>\$ 7</u>	<u>\$ (173,655)</u>	<u>\$ 1,999,244</u>

NOTE 22—GOING CONCERN

As of June 30, 2007, the district's unaudited actuals reported the district having a total general fund balance of \$42,433,160. Of this amount, the district reported \$26,045,446 legally restricted for educational programs, \$150,000 reserved for the revolving cash, \$5,122,601 for other purposes, and a negative balance of \$1,948,580 for undesignated/unappropriated funds. The district designated \$13,064,233 for economic uncertainties in its unaudited actuals. However, the negative balance of \$1,948,580 for undesignated/unappropriated funds reduces the amount available for economic uncertainties to \$11,115,653. Available reserves for a district of this size cannot be less than 2% of the total outgo of the general fund; this equates to \$9,297,272. According to the unaudited actuals, as of June 30, 2007, the district's available reserves exceeded the minimum required level of available reserves by \$1,818,381.

The State Controller's Office has disclaimed an opinion on the financial statements in all prior audits, 2002-03, 2003-04, 2004-05, and 2005-06, and the current year audit 2006-07. The district did not reconcile cash in each of these audits. The district hired a third party firm to reconcile cash for all funds including the general fund. The results indicate that the general fund is overstated by approximately \$5.6 million. In addition, the outside firm reported the payroll liabilities to be understated by approximately \$9 million after its initial review. The impact to the district's general fund balance for the combination of the cash overstatement and payroll liabilities understatement is \$14.6 million. The district's available reserve would be a negative balance of \$3,484,347 if the overstatement of cash and understatement of payroll liabilities are correct and recognized.

In addition, the district projects a negative cash balance of approximately \$30 million at fiscal year ended June 30, 2009. This projection does not include the overstatement of cash and understatement of payroll liabilities totaling \$14.6 million. The District subsequently amended the cash projection for June 30, 2009, to a negative balance of approximately \$3 million based on revised assumptions related to the timing of apportionments. (See Finding 07-01)

As a result of state compliance findings over the past five years, the district may be required to repay a material amount of questioned costs, further decreasing the reserves reported in the unaudited financial statements. Continuing to operate with insufficient available reserves could lead to further financial difficulties for the district.

We also noted that the district reported a negative balance of \$32,167,880 for the Self-Insurance Fund as of June 30, 2007. The deficit fund balance indicates that the district does not have sufficient resources to meet future self insurance liabilities.

NOTE 23—SUBSEQUENT EVENTS

Actions taken or prompted by the state administrator/board of education since the end of the 2006-07 fiscal year that will have a significant financial impact on the district and on the resulting financial reports in the future fiscal years are as follows:

Parcel Tax

February 5, 2008—Measure G was approved by 79.40% of the voters. Commencing July 1, 2009, the district shall be authorized to and shall levy a qualified special tax of \$195 per year on each parcel of taxable real property in the District. The district estimates that this parcel tax generates approximately \$20 million annually for the district.

**REQUIRED SUPPLEMENTARY INFORMATION
SECTION**

Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual General Fund Year Ended June 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue limit sources:				
State apportionments	\$ 154,526,501	\$ 140,035,340	\$ 148,944,301	\$ 8,908,961
Local apportionments	76,110,068	82,688,157	73,137,244	(9,550,913)
Federal	49,952,364	67,648,091	55,031,665	(12,616,426)
Other state	91,524,190	123,713,815	121,731,033	(1,982,782)
Other local revenue	35,562,090	73,822,395	41,515,272	(32,307,123)
Total revenues	407,675,213	487,907,798	440,359,515	(47,548,283)
Expenditures:				
Certificated salaries	165,034,996	168,495,053	164,546,463	3,948,590
Classified salaries	57,011,783	58,925,730	56,407,441	2,518,289
Employee benefits	80,122,936	79,065,127	76,107,094	2,958,033
Books and supplies	33,420,852	47,902,482	29,583,941	18,318,541
Services and other operating expenditures	51,378,115	94,263,319	76,032,058	18,231,261
Capital outlay	646,200	2,682,855	2,427,876	254,979
Other outgo	22,584,503	19,835,802	19,981,682	(145,880)
Transfer of indirect costs	(1,341,749)	(3,252,255)	(2,486,613)	(765,642)
Debt service:				
Principal	—	4,355,922	4,355,922	—
Interest	—	1,629,515	1,523,493	106,022
Total expenditures	408,857,636	473,903,550	428,479,357	45,424,193
Excess (deficiency) of revenues over (under) expenditures	(1,182,423)	14,004,248	11,880,158	(2,124,090)
Other financing sources (uses)				
Operating transfers in	2,355,851	—	4,361,756	4,361,756
Proceeds from long-term debt	—	—	—	—
All other financing sources	—	—	35,715,629	35,715,629
Operating transfers out	(3,144,329)	(36,240,268)	(36,384,258)	(143,990)
Total other financing sources (uses)	(788,478)	(36,240,268)	3,693,127	39,933,395
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(1,970,901)	(22,236,020)	15,573,285	37,809,305
Fund balances - beginning	25,222,049	25,222,049	25,222,049	—
Audit adjustment (Note 21)	—	—	(23,858)	(23,858)
Restatements (Note 21)	—	—	1,661,684	1,661,684
Fund balances restated-beginning	25,222,049	25,222,049	26,859,875	1,637,826
Fund balances restated-beginning	\$ 23,251,148	\$ 2,986,029	\$ 42,433,160	\$ 39,447,131

The notes to the financial statements are an integral part of this statement.

SUPPLEMENTARY INFORMATION SECTION

Exhibit A-1

Combining Balance Sheet Nonmajor Special Revenue Funds June 30, 2007

	Cafeteria Fund	Child Development Fund	Adult Education Fund	Deferred Maintenance Fund	Charter Schools Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Totals
Assets							
Cash in county treasury	\$ (1,040,927)	\$ 1,993,728	\$ 6,883,966	\$ 5,874,954	\$ —	\$ 5,097,817	\$ 18,809,538
Cash collections awaiting deposit	12,361	—	4,467	—	—	—	16,828
Investments	—	—	—	—	—	28,000,000	28,000,000
Accounts receivable	3,014,253	1,020,106	1,034,368	38,858	—	217,868	5,325,453
Due from grantor governments	70,123	—	—	—	—	—	70,123
Due from other funds	407,567	16,886	23,892	323,458	—	—	771,803
Stores inventories-supplies	188,109	—	—	—	—	—	188,109
Total assets	\$ 2,651,486	\$ 3,030,720	\$ 7,946,693	\$ 6,237,270	\$ —	\$33,315,685	\$ 53,181,854
Liabilities and fund balances							
Liabilities:							
Accounts payable	\$ 858,096	\$ 385,781	\$ 1,054,381	\$ 85,521	\$ —	\$ —	\$ 2,383,779
Due to other funds	651,335	639,341	1,293	—	—	2,094,903	3,386,872
Deferred revenue	—	17,681	870,622	—	—	—	888,303
Total liabilities	1,509,431	1,042,803	1,926,296	85,521	—	2,094,903	6,658,954
Fund balances:							
Reserved for							
Stores	188,109	—	—	—	—	—	188,109
Unreserved							
Other designations	—	—	—	—	—	31,220,782	31,220,782
Undesignated/unappropriated	953,946	1,987,917	6,020,397	6,151,749	—	—	15,114,009
Total fund balances	1,142,055	1,987,917	6,020,397	6,151,749	—	31,220,782	46,522,900
Total liabilities and fund balances	\$ 2,651,486	\$ 3,030,720	\$ 7,946,693	\$ 6,237,270	\$ —	\$33,315,685	\$ 53,181,854

The notes to the financial statements are an integral part of this statement.

Exhibit A-2

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2007**

	Cafeteria Fund	Child Development Fund	Adult Education Fund	Deferred Maintenance Fund	Charter Schools Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Totals
Revenues:							
Revenue limit sources:							
State apportionments	\$ —	\$ —	\$ 12,497,049	\$ —	\$ —	\$ —	\$ 12,497,049
Federal	12,384,444	9,027,679	1,411,520	—	—	—	22,823,643
Other state	1,089,938	12,257,902	329,240	1,955,666	—	—	15,632,746
Other local revenue	1,130,978	738,254	418,434	192,305	—	434,279	2,914,250
Total revenues	14,605,360	22,023,835	14,656,243	2,147,971	—	434,279	53,867,688
Expenditures:							
Certificated salaries	—	7,969,471	7,393,603	—	—	—	15,363,074
Classified salaries	4,328,493	4,946,437	1,634,040	—	—	—	10,908,970
Employee benefits	1,887,135	5,522,389	2,568,605	—	—	—	9,978,129
Books and supplies	7,009,503	272,165	1,547,331	—	—	—	8,828,999
Services and other operating expenditures	356,707	590,326	716,412	3,346,387	—	—	5,009,832
Capital outlay	—	39,379	126,573	62,823	—	—	228,775
Transfer of indirect costs	684,053	1,208,448	594,112	—	—	—	2,486,613
Total expenditures	14,265,891	20,548,615	14,580,676	3,409,210	—	—	52,804,392
Excess (deficiency) of revenues over (under) expenditures							
	339,469	1,475,220	75,567	(1,261,239)	—	434,279	1,063,296
Operating transfers in	361,756	—	279,123	2,060,010	—	32,816,816	35,517,705
Operating transfers out	(206,843)	(361,756)	—	—	—	(2,094,903)	(2,663,502)
Total other financing sources (uses)	154,913	(361,756)	279,123	2,060,010	—	30,721,913	32,854,203
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)							
	494,382	1,113,464	354,690	798,771	—	31,156,192	33,917,499
Beginning fund balance	670,247	1,048,108	5,665,707	5,023,029	94,784	64,590	12,566,465
Audit adjustments	—	(173,655)	—	—	—	—	(173,655)
Other restatements	(22,574)	—	—	329,949	(94,784)	—	212,591
Fund balances restated-beginning	647,673	874,453	5,665,707	5,352,978	—	64,590	12,605,401
Fund balances-ending	\$ 1,142,055	\$ 1,987,917	\$ 6,020,397	\$ 6,151,749	\$ —	\$31,220,782	\$ 46,522,900

The notes to the financial statements are an integral part of this statement.

Exhibit B-1

Combining Balance Sheet Nonmajor Capital Projects Funds June 30, 2007

	Capital Facilities Fund	State School Building Lease- Purchase Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Totals
Assets					
Cash in county treasury	\$ 6,108,280	\$ 4,084,722	\$ 9,081,973	\$ 131,061	\$ 19,406,036
Accounts receivable	1,575,642	40,262	86,331	1,291	1,703,526
Total assets	<u>\$ 7,683,922</u>	<u>\$ 4,124,984</u>	<u>\$ 9,168,304</u>	<u>\$ 132,352</u>	<u>\$ 21,109,562</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 152,310	\$ —	\$ —	\$ —	\$ 152,310
Due to other funds	623	—	323,458	—	324,081
Total liabilities	<u>152,933</u>	<u>—</u>	<u>323,458</u>	<u>—</u>	<u>476,391</u>
Fund balances:					
Unreserved					
Undesignated/unappropriated	7,530,989	4,124,984	8,844,846	132,352	20,633,171
Total fund balances	<u>7,530,989</u>	<u>4,124,984</u>	<u>8,844,846</u>	<u>132,352</u>	<u>20,633,171</u>
Total liabilities and fund balances	<u>\$ 7,683,922</u>	<u>\$ 4,124,984</u>	<u>\$ 9,168,304</u>	<u>\$ 132,352</u>	<u>\$ 21,109,562</u>

The notes to the financial statements are an integral part of this statement.

Exhibit B-2

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2007**

	Capital Facilities Fund	State School Building Lease- Purchase Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Totals
Revenues:					
Other state	\$ —	\$ —	\$ 323,458	\$ —	\$ 323,458
Other local revenue	5,476,432	177,311	1,130,265	17,906	6,801,914
Total revenues	5,476,432	177,311	1,453,723	17,906	7,125,372
Expenditures:					
Books and supplies	160,549	—	—	—	160,549
Services and other operating expenditures	70,090	—	323,458	—	393,548
Capital outlay	880,457	—	—	—	880,457
Total expenditures	1,111,096	—	323,458	—	1,434,554
Excess (deficiency) of revenues over (under) expenditures	4,365,336	177,311	1,130,265	17,906	5,690,818
Operating transfers out	(5,293,716)	—	—	—	(5,293,716)
Total other financing sources (uses)	(5,293,716)	—	—	—	(5,293,716)
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(928,380)	177,311	1,130,265	17,906	397,102
Beginning fund balance	7,783,140	3,947,673	7,714,581	114,446	19,559,840
Other restatements	676,229	—	—	—	676,229
Fund balances restated—beginning	8,459,369	3,947,673	7,714,581	114,446	20,236,069
Fund balances—ending	\$ 7,530,989	\$ 4,124,984	\$ 8,844,846	\$ 132,352	\$ 20,633,171

The notes to the financial statements are an integral part of this statement.

Exhibit C-1

**Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2007**

	Debt Service Fund	Bond Interest and Redemption Fund	Tax Override Fund	Totals
Assets				
Cash in county treasury	\$ (194,063)	\$ 32,798,868	\$ 28,280	\$ 32,633,085
Cash with a fiscal agent/trustee	100,647	—	—	100,647
Accounts receivable	3,170	1,630,090	495	1,633,755
Total assets	<u>\$ (90,246)</u>	<u>\$ 34,428,958</u>	<u>\$ 28,775</u>	<u>\$ 34,367,487</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 626,209	\$ —	\$ —	\$ 626,209
Total liabilities	<u>626,209</u>	<u>—</u>	<u>—</u>	<u>626,209</u>
Fund balances:				
Unreserved				
Undesignated/unappropriated	<u>(716,455)</u>	<u>34,428,958</u>	<u>28,775</u>	<u>33,741,278</u>
Total fund balances	<u>(716,455)</u>	<u>34,428,958</u>	<u>28,775</u>	<u>33,741,278</u>
Total liabilities and fund balances	<u>\$ (90,246)</u>	<u>\$ 34,428,958</u>	<u>\$ 28,775</u>	<u>\$ 34,367,487</u>

The notes to the financial statements are an integral part of this statement.

Exhibit C-2

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2007**

	Debt Service Fund	Bond Interest and Redemption Fund	Tax Override Fund	Totals
Revenues:				
Other state	\$ —	\$ 318,182	\$ 398	\$ 318,580
Other local revenue	12,447	31,986,615	29,908	32,028,970
Total revenues	12,447	32,304,797	30,306	32,347,550
Expenditures:				
Principal	2,635,000	5,577,342	36,796	8,249,138
Interest	1,594,472	23,443,265	—	25,037,737
Total expenditures	4,229,472	29,020,607	36,796	33,286,875
Excess (deficiency) of revenues over (under) expenditures	(4,217,025)	3,284,190	(6,490)	(939,325)
Operating transfers in	3,213,424	—	—	3,213,424
All other financing sources	—	3,670,397	—	3,670,397
Total other financing sources (uses)	3,213,424	3,670,397	—	6,883,821
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(1,003,601)	6,954,587	(6,490)	5,944,496
Beginning fund balance	908,136	27,256,371	35,258	28,199,765
Other restatements	(620,990)	218,000	7	(402,983)
Fund balances restated—beginning	287,146	27,474,371	35,265	27,796,782
Fund balances—ending	\$ (716,455)	\$34,428,958	\$ 28,775	\$ 33,741,278

The notes to the financial statements are an integral part of this statement.

Organization June 30, 2007

The Oakland Unified School District reports that it became a unified school district in 1855. There were no changes in the boundaries of the district during the current year. The district operates 59 elementary schools, 19 middle schools, 7 high schools, 9 small autonomous schools, and 9 alternative schools. The district also maintains 4 adult education sites, 12 child development centers, 4 state preschools, and 19 combined child development centers and state preschools, and sponsored 29 charter schools.

Advisory Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Kerry Hamill	Director	January 2009
David Kakishiba	Director	January 2011
Gregory Hodge	Director	January 2009
Gary Yee	Director	January 2011
Noel Gallo	Director	January 2013
Dan Siegel	Director	January 2009
Alice Spearman	Director	January 2013

Administration

Dr. Kimberly Statham
State Administrator
Appointed September 2006

Javetta Robinson, CPA
Chief Financial Officer (CFO)/Associate Superintendent of Business Services
Hired January 10, 2005

Current Administration

Vincent C. Matthews
State Administrator

Roberta Mayor
Interim Superintendent

Vernon Hal
Chief Financial Officer

Schedule of Average Daily Attendance Year Ended June 30, 2007

	Average Daily Attendance ¹	
	Second Period Report	Annual Report
Elementary:		
Kindergarten	3,343.09	3,342.80
Grades 1 through 3	9,641.83	9,611.01
Grades 4 through 6	8,482.49	8,443.64
Grades 7 – 8	5,235.74	5,224.56
Opportunity schools	7.73	8.09
Home and hospital	29.26	27.76
Special education	886.63	886.23
Community day school	17.52	16.52
Elementary totals	<u>27,644.29</u>	<u>27,560.61</u>
Secondary:		
Grades 9 through 12 (regular classes)	8,623.38	8,479.66
Continuation education	303.69	280.36
Opportunity schools	170.86	172.75
Home and hospital	23.72	24.95
Special education	424.69	411.92
Community day school	14.93	13.98
Secondary totals:	<u>9,561.27</u>	<u>9,383.62</u>
K - 12 totals	<u>37,205.56</u>	<u>36,944.23</u>
Regional occupation centers	<u>521.33</u>	<u>541.27</u>
Classes for adults:		
Concurrently enrolled	51.92	44.83
Not concurrently enrolled	4,685.09	4,890.52
Adult totals	<u>4,737.01</u>	<u>4,935.35</u>
ADA totals	<u>42,463.90</u>	<u>42,420.85</u>
	Summer School	Hours of Attendance
	<u>Elementary</u>	—
	High school	<u>76,209.00</u>
	Total	<u>76,209.00</u>

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

¹ Average daily attendance is based on the Second Period Report for the period ended April 15, 2007, and the Annual Report for the period ended June 30, 2007, as reported by the district. See Findings 07-21, 07-22, 07-23, 07-25, 07-26, 07-28, and 07-30.

Schedule of Instructional Time Year Ended June 30, 2007

Grade Level	1982-83 Actual Minutes Offered	1986-87 Minutes Requirement	2005-06 Actual Minutes Offered	Number of Days Traditional Calendar	Status ¹
Kindergarten	31,800	36,000	48,840	180	In compliance
Grades 1 through 3	40,610	50,400	51,300	180	In compliance
Grades 4 through 8	42,360	54,000	55,440	180	In compliance
Grades 9 through 12	42,000	64,800	64,812	180	In compliance

Districts must maintain their instructional minutes at either the 1986-87 requirement or the 1982-83 actual instructional minutes offered, whichever is greater, as required by Education Code section 46201.

The district has received incentive funding for increasing instructional time as provided by the incentives for longer instructional day program. This schedule presents information on the amount of instructional time offered by the district and whether the district complied with the provisions of Education Code sections 46201 through 46206.

¹ Refer to Finding 07-31.

Schedule of Financial Trends and Analysis ¹

Year Ended June 30, 2007

General Fund	2008 (Budget)	For the Year Ended June 30,		
		2007	2006	2005
Revenues and other financing sources	\$ 419,022,199	\$ 480,436,900	\$ 403,476,442	\$ 412,850,622
Expenditures	415,612,134	408,497,675	396,107,981	397,434,827
Other uses and transfers out	3,144,329	56,365,939	4,648,585	4,830,834
Total outgo	418,756,463	464,863,614	400,756,566	402,265,661
Change in fund balance (deficit)	265,736	15,573,286	2,719,876	10,584,961
Prior period adjustments/restatements	—	1,637,826	2,314,733	(2,242,350)
Ending fund balance (see below)	<u>\$ 42,698,896</u>	<u>\$ 42,433,157</u>	<u>\$ 25,222,045</u>	<u>\$ 20,187,436</u>
Available reserves ² (see below)	<u>\$ 11,549,768</u>	<u>\$ 11,115,653</u>	<u>\$ 1,422,816</u>	<u>\$ 630,984</u>
Designated for economic uncertainties	<u>\$ 11,549,768</u>	<u>\$ 11,115,653</u>	<u>\$ —</u>	<u>\$ —</u>
Undesignated fund balance	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,422,816</u>	<u>\$ 630,984</u>
Available reserves as a percentage of total outgo	<u>2.76%</u>	<u>2.39%</u>	<u>0.36%</u>	<u>0.16%</u>
Total long-term debt	<u>\$ 689,912,894</u>	<u>\$ 739,469,948</u>	<u>\$ 586,837,145</u>	<u>\$ 448,821,463</u>
Average daily attendance (ADA) at P-2 ³	<u>37,122</u>	<u>37,206</u>	<u>38,667</u>	<u>42,319</u>

The general fund's fund balance has increased by \$22,245,721 over the past two years. The fiscal year ending June 30, 2007 budget is projecting an increase of \$265,739 in the ending fund balance. For a district this size, the State recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo). The district has met this requirement. However, the district hired a third-party accounting firm to reconcile cash and payroll for all funds and the reconciliation revealed:

- Cash in the general fund is overstated by approximately \$5.6 million.
- Payroll liabilities are understated by approximately \$9 million. See Finding 07-01.

Total long-term debt has increased by \$260,004,405 over the past two years.

Average daily attendance has decreased by 5,113 ADA over the past two years.

¹ This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

² Available reserves consist of all undesignated fund balances (net of restatements) and all funds designated for economic uncertainty contained within the general fund, special reserve fund (other than capital outlay projects), or within any Article XIII-B trust funds.

³ Excludes Adult Education ADA, regional occupational centers and Charter School ADA.

Schedule of Charter Schools Year Ended June 30, 2007

Name of Charter School	Included in District Financial Statements, or Separate Report
American Indian Public Charter School	Separate Report
American Indian Public High School	Separate Report
Bay Area Technology School	Separate Report
Berkley Maynard Academy	Separate Report
California College Preparatory Academy	Separate Report
East Bay Conservation Corps Charter	Separate Report
East Oakland Leadership Academy	Separate Report
Education for Change – Achieve Academy	Separate Report
Education for Change – World Academy	Separate Report
Education for Change at Cox Elementary	Separate Report
Ernestine C. Reems Academy of Technology and Art	Separate Report
Dolores Huerta Learning Academy	Separate Report
Junior Space Exploration Academy	Separate Report
Lighthouse Community Charter School	Separate Report
Lighthouse Community Charter High School	Separate Report
Lionel Wilson College Preparatory Academy	Separate Report
Leadership Public Schools: College Park	Separate Report
Millsmont Academy	Separate Report
Monarch Academy	Separate Report
North Oakland Community Charter School	Separate Report
Oakland Aviation High School	Separate Report
Oakland Charter Academy	Separate Report
Oakland Military Institute College Preparatory Academy	Separate Report
Oakland School for the Arts	Separate Report
Oakland Unity High School	Separate Report
OASIS High School	Separate Report
Space Exploration Academy	Separate Report
University Preparatory Charter Academy	Separate Report
Youth Employment Partnership	Separate Report

Schedule of Excess Sick Leave Year Ended June 30, 2007

This schedule indicates whether excess leave, as that term is defined in subdivision (c) of California Education Code section 22170.5, is expressly authorized or is accrued for the District's administrators or employees who are members of the California State Teacher's Retirement System (CalSTRS).

Titles of Employees Exhibiting Excess Sick Leave	Is Excess Sick Leave Authorized by Employee's Contract?	Was Excess Sick Leave Found To Be Accrued For The Employee?	Contract Authorizing Excess Sick Leave	Is Excess Sick Leave Authorized In Teachers' Contract?
State Administrator	Yes	No	Contract for Employment of the State Administrator For Oakland Unified School District	No

The Oakland Unified School District provides more than twelve (12) sick days in a school year for State Administrators.

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed through California Department of Education (CDE):			
Title I - (NCLB, Part A) Basic Grants	84.010	14329	\$ 23,450,189
Title I - (NCLB, Part B) Reading First	84.357	14328	2,593,815
Title I - PID Intervention	84.010	14581	984,560
Title I - (Carl Perkins Act, Part C) Vocational and Tech. Education	84.048	13924	639,310
Title I -SAIT Corrective Action	84.010	14579	407,127
Title I - Part D Neglected and Delinquent Children	84.010	14357	164,354
Title I - (NCLB, Part C) Migrant Education - State Grant Program	84.011	14326	153,060
Title I -SAIT	84.010	14417	37,496
Title I - Comprehensive School Reform	84.010	14325	3,246
Title II - Part A, (Improving Teacher Quality)	84.367	14341	6,788,035
Title II - (NCLB, Part D) Enhancing Education Through Technology - competitive grants	84.318	14368	1,095,489
Title II - (NCLB, Part D) Enhancing Education Through Technology - formula grants	84.318	14334	703,051
Title II -(NCLB) Mathematics and Science Partnerships	84.366	14512	325,828
Title III - (NCLB) Limited English Proficiency	84.365	10084	913,969
Title III - (NCLB) Immigrant Education Grant	84.365	14346	21,223
Title IV – 21st Century - Community Learning Centers	84.287	14349	3,964,668
Title IV - Drug Free Schools	84.186	14347	645,407
Title V - (NCLB) Charter School Grants	84.282	14531	222,500
Title V - (NCLB, Part A) Innovative Education Strategies	84.298	14354	86,565
Title X – Education for Homeless Children and Youth Program	84.196	14332	93,996
Special Ed - (IDEA, Part B) Local Assistance Entitlements	84.027	13379	8,332,822
Special Ed - (IDEA, Part B) Preschool Local Entitlement	84.027	13682	461,123
Special Ed - (IDEA, Part B) Workability I Program			305,884
Special Ed – Dept of Rehabilitation - Workability II, Transitions Partnerships	84.158	10006	262,318
Special Ed - (IDEA, Part B) Federal Preschool Grant	84.173	13430	258,920
Special Ed - (IDEA, Part C) Early Intervention Funds	84.181	23761	223,411
Special Ed - (IDEA, Part B) Local Staff Development	84.027		18,881
Special Ed - (IDEA, Part B) Low Incidence Entitlements			11,268
Special Ed - (IDEA, Part B) Pre-K Staff	84.173	13431	4,582
Adult Education - Basic Education and ESL	84.002A	14508	736,200
Adult Education - English Literacy and Civics Education	84.002A	14109	463,417
Adult Education – Vocational Programs Postsecondary	84.048	13923	160,828
Adult Education - Family Literacy	84.002	13977	33,975
Adult Education - Adult Secondary Education	84.002	13978	17,100
Other Federal			1,034,163
Indian Education - Formula Grant	84.060	10011	54,332
Total U.S. Department of Education			\$ 55,673,112

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through CDE:			
National School Lunch Cluster	10.555	13755	\$ 11,806,376
Garden Enhanced Nutrition	00.000	24155	—
Total U.S. Department of Agriculture			<u>11,806,376</u>
U.S. Department of Health and Human Services:			
Passed through CDE:			
Child Development – Federal Child Care Center Based	93.596	13609	7,923,985
Other Federal			816,424
Medical Assistance Program	93.778	10013	538,284
Refugee Children Supplemental Assistance	93.243	24791	173,076
CalServe – Learn & Serve America Service Grants	94.004	*	65,605
Child Development – Quality Improvement Activities	93.575	14130	12,173
Child Development – School Age Child Care	94.575	13941	6,251
Total U.S. Department of Health and Human Services			<u>9,535,798</u>
Total Expenditures of Federal Awards			<u>\$ 77,015,286</u>

The accompanying notes are an integral part of this statement.

* Pass-through entity identifying number unavailable.

Note to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

NOTE 1— BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Oakland Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Reconciliation of Annual Financial and Budget Report (SACS) with Audited Financial Statements ¹ Year Ended June 30, 2007

	General Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
June 30, 2007, Annual Financial and Budget Report fund balances:	\$ 43,264,161	\$6,020,397	\$ 1,987,917	\$1,142,055	\$ 6,151,749
To write-off fiscal year 2003-04 and prior payables	—	—	—	—	—
To correct accounts payable	—	—	—	—	—
To correct Due To/Due From	—	—	—	—	—
To correct deferred revenue	69,000	—	—	—	—
To record loss reserve	(900,000)	—	—	—	—
To correct abatement	—	—	—	—	—
To record prepared dental insurance expense in the proper period	—	—	—	—	—
To record cash with fiscal agent	—	—	—	—	—
Subtotal audit adjustments-statement of activities	—	—	—	—	—
Net adjustments and reclassification	(831,000)	—	—	—	—
June 30, 2007, Annual Financial and Budget Report fund balances	\$ 42,433,161	\$6,020,397	\$ 1,987,917	\$1,142,055	\$ 6,151,749

	Building Fund	Capital Facilities Fund	State School Building Lease/Purchase Fund	Self-Insurance Fund
June 30, 2007, Annual Financial and Budget Report fund balances:	\$173,261,540	\$ 7,530,989	\$ 4,124,985	\$ 7,409,315
To write-off fiscal year 2003-04 and prior payables	—	—	—	—
To correct accounts payable	—	152,311	—	13,233
To correct Due To/Due From	—	622	—	—
To correct accounts receivable	—	—	—	290,845
To record loss reserve	—	—	—	—
To correct abatement	—	—	—	—
To correct self-insurance obligation	—	—	—	(39,854,807)
To record prepared dental insurance expense in the proper period	—	—	—	—
To record cash with fiscal agent	—	—	—	—
Subtotal audit adjustments-statement of activities	—	—	—	—
Net adjustments and reclassification	—	152,933	—	(39,577,195)
June 30, 2007, Annual Financial and Budget Report fund balances	\$173,261,540	\$ 7,683,922	\$ 4,124,985	\$(32,167,880)

¹ This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS report to the audited financial statements. Funds that required no adjustments were not presented.

Class Size Reduction K-3

Schedule of Noncompliant Classes by Grade Level ¹

Grade Level	1	2		3		4	5	6		7	8
	Number of Pupils Enrolled in Each Class	Number of Classes of Each Size	Ineligible Total Pupils per Class	Total Pupils Per Class Size (Col. 1 × Col. 2) - Col. 3	Number of Classes of Each Size	Ineligible Total Pupils per Class	Total Pupils Per Class Size (Col. 1 × Col. 5) - Col. 6	Total Pupils (Over) Under Claimed (Col. 7 - Col. 4)			
Kindergarten	2	1	—	2	1	2 ^a	0	(2)			
Third	19	29	—	551	29	1 ^b	550	(1)			
Third	20	70	—	1,400	70	1 ^b	1,399	(1)			
Number of ineligible pupils claimed on Form J-7 CSR								(4)			
Number of overstated pupils due to rounding errors								(5)			
Number of eligible pupils overstated by district due to inaccuracies in supporting system reports								(39)			
Total number of pupils overstated on Form J-7 CSR								(48)			
Funding per pupil								\$ 1,024			
Excess apportionment received								\$ (49,152)			

¹ Refer to Finding 07-39.

^a Ineligible special education class claimed for funding.

^b Ineligible grade 4 student claimed for funding.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION



JOHN CHIANG
California State Controller

Vincent C. Matthews
State Administrator
Oakland Unified School District
1025 Second Avenue
Oakland, CA 94606-2212

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

The State Controller's Office was engaged to audit the financial statements of Oakland Unified School District, as of and for the year ended June 30, 2007, 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 our report thereon dated October 20, 2009, we did not express an opinion on the financial statements because the district has not completed the reconciliations for Cash in County Treasury for all funds, including the Warrant Pass-Through Fund (Fund 76) as well as the payroll clearing accounts maintained in banks in conjunction with the district's addressing the accounting record deficiencies for accounts receivable, capital assets, accounts payable, revenue, deferred revenue, long-term debt, payroll, expenditures, and other related accounts in order to audit the 2006-07 financial statements of the district. As a result of the scope limitation, we limited our testing of the district's financial statements to evaluating whether the district had taken appropriate corrective action to address prior year audit findings and recommendations. Due to the scope limitation, and because our limited testing identified that the district's accounting records were deficient and certain records and supporting data were not available, we were unable to obtain sufficient, competent evidential matter supporting the amounts at which cash, accounts receivable, capital assets, related accumulated depreciation, accounts payable, deferred revenue, long-term debt, revenue, expenditures, payroll, interfund transfers, and fund balances were stated in the accompanying financial statements at \$306,695,137, \$41,909,755, \$721,300,478, \$185,804,786, \$49,965,577, \$14,812,296, \$743,310,243, \$538,735,204, \$537,669,278, \$335,067,761, \$46,401,486, and \$316,592,050, respectively, as of June 30, 2007.

In addition, the district declined to present statements of fiduciary net assets for the agency funds-associated student body funds and subsidiary funds, for the year ended June 30, 2007. Presentation of such statements, identifying the assets and liabilities of the funds, is required by accounting principles generally accepted in the United States of America. The omission of statements of fiduciary net assets for the agency funds-associated student body funds and subsidiary funds, results in an incomplete presentation, as explained above.

The accompanying financial statements have been prepared assuming that Oakland Unified School District will continue as a going concern. As discussed in Note 22 to the financial statements, the district's available reserves exceeded the minimum required level of available reserves by \$1,818,381. The district projected a negative cash balance of \$30 million at fiscal year end June 30, 2009. However, the district revised the projection to a negative cash balance of \$3 million. The projection does not include a estimated cash overstatement and payroll liability understatement totaling \$14.6 million that the district has not recognized, material questioned costs from prior years audits that the district may be required to repay, and a negative fund balance in the Self-Insurance Fund of \$32,167,880.

Internal Control Over Financial Reporting

In planning and performing our audit, the State Controller's Office considered the district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the district's financial statements that is more than inconsequential will not be prevented or detected by the district's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See Findings 07-02 through 07-08.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 07-02 through 07-08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the district's financial statements are free of material misstatement, the State Controller's Office performed tests of the district's 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, the State Controller's Office does not express such an opinion. The results of the State Controller's Office's tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Findings 07-09 through 07-40.

Oakland Unified School District's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the district's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the district's management, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

October 20, 2009



JOHN CHIANG
California State Controller

Vincent C. Matthews
State Administrator
Oakland Unified School District
1025 Second Avenue
Oakland, CA 94606-2212

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE,
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

The State Controller's Office has audited the compliance of Oakland Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Oakland Unified School District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Oakland Unified School District's management. The responsibility of the State Controller's Office is to express an opinion on Oakland Unified School District's compliance based on the audit.

The State Controller's Office conducted its audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that the State Controller's Office plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about Oakland Unified School District's compliance with those requirements and performing such other procedures as the State Controller's Office considered necessary in the circumstances. The State Controller's Office believes that the audit provides a reasonable basis for its opinion. The audit does not provide a legal determination of Oakland Unified School District's compliance with those requirements.

As described in Findings 07-09 through 07-20 in the accompanying schedule of findings and questioned costs, Oakland Unified School District did not comply with requirements regarding OMB Circulars A-87 and A-133 that are applicable to its National School Lunch Program, Title I, Special Education, Improving Teacher Quality, Reading First State Grants, Twenty-First Century Community Learning Centers, and Child Care and Development Fund Cluster. Compliance with such requirements is necessary, in the opinion of the State Controller's Office, for the Oakland Unified School District to comply with the requirements applicable to those programs.

In the opinion of the State Controller's Office, except for the non-compliance described in the preceding paragraph, the district complied, in all material respects, with the requirements referred to above that are applicable to the National School Lunch Program, Title I, Special Education, Improving Teacher Quality, Reading First State Grants, Twenty-First Century Community Learning Centers, and the Child Care and Development Fund Cluster for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs in Findings 07-09 and 07-20.

Internal Control Over Compliance

The management of Oakland Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing the audit, the State Controller's Office considered Oakland Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of the district's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the district's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 07-09 through 07-20 to be significant deficiencies.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 07-09 through 07-20 to be material weaknesses.

The Oakland Unified School District's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the district's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the district's management, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

October 20, 2009



JOHN CHIANG
California State Controller

Vincent C. Matthews
State Administrator
Oakland Unified School District
1025 Second Avenue
Oakland, CA 94606-2212

AUDITOR'S REPORT ON STATE COMPLIANCE

The State Controller's Office was engaged to audit the financial statements of Oakland Unified School District, as of and for the year ended June 30, 2007, 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 our report thereon dated October 20, 2009, we did not express an opinion on the financial statements because the district has not completed the reconciliations for Cash in County Treasury for all funds, including the Warrant Pass-Through Fund (Fund 76) as well as the payroll clearing accounts maintained in banks in conjunction with the district's addressing the accounting record deficiencies for accounts receivable, capital assets, accounts payable, revenue, deferred revenue, long-term debt, payroll, expenditures, and other related accounts in order to audit the 2006-07 financial statements of the district. As a result of the scope limitation, we limited our testing of the district's financial statements to evaluating whether the district had taken appropriate corrective action to address prior year audit findings and recommendations. Due to the scope limitation, and because our limited testing identified that the district's accounting records were deficient and certain records and supporting data were not available, we were unable to obtain sufficient, competent evidential matter supporting the amounts at which cash, accounts receivable, capital assets, related accumulated depreciation, accounts payable, deferred revenue, long-term debt, revenue, expenditures, payroll, interfund transfers, and fund balances were stated in the accompanying financial statements at \$306,695,137, \$41,909,755, \$721,300,478, \$185,804,786, \$49,965,577, \$14,812,296, \$743,310,243, \$538,735,204, \$537,669,278, \$335,067,761, \$46,401,486, and \$316,592,050, respectively, as of June 30, 2007.

In addition, the district declined to present statements of fiduciary net assets for the agency funds-associated student body funds and subsidiary funds for the year ended June 30, 2007. Presentation of such statements identifying the assets and liabilities of the funds, is required by accounting principles generally accepted in the United States of America. The omission of statements of fiduciary net assets for the agency funds-associated student body funds and subsidiary funds results in an incomplete presentation, as explained above.

The accompanying financial statements have been prepared assuming that Oakland Unified School District will continue as a going concern. As discussed in Note 22 to the financial statements, the district's available reserves exceeded the minimum required level of available reserves by \$1,818,381. The district projected a negative cash balance of \$30 million at fiscal year end June 30, 2009. However, the district revised the projection to a negative cash balance of \$3 million. The projection does not include a estimated cash overstatement and payroll liability understatement totaling \$14.6 million that the district has not recognized, material questioned costs from prior years audits that the district may be required to repay, and a negative fund balance in the self-insurance fund of \$32,167,880.

The district's management is responsible for the district's compliance with laws and regulations. In connection to the audit referred to above, the State Controller's Office selected and tested transactions and records to determine the district's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance reporting	8	No ¹
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational center/programs	6	Not applicable ²
Instructional time:		
School districts	6	Yes
County offices of education	3	Not applicable
Community day schools	9	Not applicable ²
Morgan-Hart class size reduction program	7	No ¹
Instructional materials:		
General requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of administrative employees to teachers	1	Yes
Early retirement incentive program	4	Not applicable ²
Gann limit calculation	1	Yes
School construction funds:		
School district bonds	3	No ¹
State school facilities	1	Yes
Alternative pension plans	2	Not applicable ²
Excess sick leave	2 or 3	Yes
Notice of right to elect CalSTRS membership	1	Yes
Proposition 20 Lottery funds	2	Yes
State lottery funds	2	Yes
California school-age families education program	3	Not applicable ²
School accountability report card	3	Yes
Class size reduction:		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
Charter schools:		
Contemporaneous records of attendance	1	Not applicable
Mode of instruction	1	Not applicable
Nonclassroom-based instruction/independent study	15	Not applicable
Determination of funding in nonclassroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Not applicable

¹ As discussed in Findings 07-23, 07-32, and 07-35, the State Controller's Office was unable to perform all of the audit procedures listed in the K-12 audit guide with regard to auditing Attendance, Morgan-Hart Class size reduction, and School Construction because the district did not provide documentation or provided inadequate documentation to support its compliance with state laws and regulations.

² The district does not operate a Regional Occupational Center/Program, Community Day School, or a California School Age Families Education program. The district does not offer an early retirement incentive program or an alternative pension plan. Therefore, we did not perform audit procedures related to these areas.

Based on our audit, the State Controller's Office found that, for the items tested, the Oakland Unified School District complied with the state laws and regulations referred to above, except as described in the schedule of findings and questioned costs. Further, for the items not tested, nothing came to our attention to indicate that the Oakland Unified School District had not complied with the state laws and regulations, except as described in Findings 07-21 through 07-40.

This report is intended solely for the information and use of district management, federal awarding agencies, the State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

October 20, 2009

FINDINGS AND RECOMMENDATIONS SECTION

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

SECTION I—SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued:	Disclaimer
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Disclaimer
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program
84.010	Title I – (NCLB, Part A) Basic Grants
84.027	Special Education
84.367	Title II – Part A, Improving Teacher Quality State Grants
84.357	Title I – Reading First State Grants
84.287	Title IV – 21 st Century-Community Learning Centers
93.596	Child Care and Development Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,310,459
Auditee qualified as low-risk auditee?	No

State Awards

Internal control over state programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for state programs:	Qualified

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Findings and Recommendations

Year Ended June 30, 2007

The findings and recommendations in Sections II through V represent conditions that the State Controller's Office (SCO) considers to be of particular importance. The findings are categorized according to the finding types delineated in the Education Code section 41020(n) and are coded according to the five-digit codes listed in the Standards and Procedures for Audits of California K-12 Local Educational Agencies.

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of equipment
30000	Internal control
40000	State compliance
41000	CalSTRS
50000	Federal compliance
60000	Miscellaneous
70000	Instructional materials
71000	Teacher misassignments
72000	School accountability report card

SECTION II—FINANCIAL STATEMENT FINDINGS

**FINDING 07-01—
Going concern issues
(30000) (60000)**

The district continues to be a going concern for the following reasons:

Available Reserves Reported in the District's Unaudited Actuals are Incorrect

As of June 30, 2007, the district's unaudited actuals reported a general fund balance of \$42,433,160. Of this amount, the district reported \$26,045,446 legally restricted for educational programs, \$150,000 reserved for the revolving cash, \$5,122,061 for other purposes, and a negative balance of \$1,948,580 for undesignated/unappropriated funds. The district also designated \$13,064,233 for economic uncertainties. However, the negative balance of \$1,948,580 for undesignated/unappropriated funds reduced the amount available for economic uncertainties to \$11,115,653. Available reserves for a district of this size cannot be less than 2% of the total outgo of the general fund; this equates to \$9,297,272. Although it appears that the district's available reserves exceeded the minimum required level of available reserves by \$1,818,381, the district has not reconciled cash for the past five fiscal years (from FY 2002-03 through 2006-07).

In May 2008, upon the SCO's recommendation, the district hired a third-party accounting firm to reconcile cash and payroll for all funds, including the general fund. The results, which were presented in an April 2009 board meeting, indicate that cash in the general fund is overstated by approximately \$5.6 million. In addition, the accounting firm reported that, after its initial review, the district's payroll liabilities were understated by approximately \$9 million. The firm is still attempting to

reconcile the district's payroll accounts. The impact to the district's general fund balance for the combination of the cash overstatement and payroll liabilities understatement is \$14.6 million (reduction of cash by \$5.6 million and an increase in liabilities by \$9 million). The district's available reserve will be reduced to a negative balance of \$3,484,347 if the overstatement of cash and understatement of payroll liabilities are correct and recorded in the district's accounting records.

Budget Projections

The district projects a negative cash balance of approximately \$30 million at fiscal year ended June 30, 2009. This projection assumes that the State will continue to defer the district's cash apportionments for revenue limit and class size reduction totaling approximately \$40 million. However, this projection does not include the overstatement of cash and understatement of payroll liabilities totaling \$14.6 million. The District subsequently amended the cash projection for June 30, 2009, to a negative balance of approximately \$3 million based on revised assumptions related to the timing of apportionments. (See Note 22)

State Compliance Findings

The district may be required to repay \$8.85 million, \$2.78 million, and \$7.17 million in state funding for findings identified in the FYs 2004-05, 2005-06, and 2006-07 annual audits, respectively. The district's available reserves are not sufficient to repay state disallowed costs, and penalties will lead to further financial difficulties for the district.

Federal Compliance Findings

The district may be required to repay \$9.55 million, \$21.97 million, and \$67.85 million in federal funds for findings identified in the FYs 2004-05, 2005-06, and 2006-07 annual audits, respectively. The district's available reserves are not sufficient to repay federal questioned costs which will lead to further financial difficulties for the district.

Negative Fund Balance in the Self-Insurance Fund

The district does not report its self-insurance obligation in the Self-Insurance Fund. When the obligation is properly reported in the fund, the fund has a deficit fund balance of \$32.2 million. The deficit fund balance indicates that the district does not have sufficient resources to meet future self-insurance liabilities.

California Code of Regulations (CCR), Title 5, section 15443 states, in part:

Available reserves cannot be less than the following percentages or amounts as applied to total expenditures, transfers out and other uses except as provided in the Education Code Section 33128...2% for districts with 30,001 to 400,000 ADA.

Education Code section 33128.3 states:

- (a) Notwithstanding the standards and criteria adopted pursuant to paragraph (3) of subdivision (a) of Section 33128, for the 2003-04 and 2004-05 fiscal years, the minimum state requirement for a reserve for economic uncertainties is one-half of the percentage for a reserve adopted by the State Board of Education pursuant to Section 33128 as of May 1, 2003.
- (b) For the 2005-06 fiscal year, the minimum state requirement for a reserve for economic uncertainties shall be restore to the percentage adopted by the State Board of Education pursuant to Section 33128 as of May 1, 2003.

This condition has remained constant in each of the four prior years' audits. This is a repeat of Findings 03-01, 04-01, 05-01, and 06-01.

Recommendation

The district should:

- Properly reconcile accounts to identify cash balances and all potential liabilities in a timely manner;
- Budget and monitor expenditures to maximize available reserves and, if necessary, reduce expenditures to ensure sufficient available reserves;
- Comply with state and federal program requirements to avoid or minimize questioned/disallowed costs and penalties for non-compliance; and
- Develop a plan to fund its actuarial determined obligation for workers' compensation and dental claims.

District's Response

The District is committed to the continuous review and improvement of its oversight of all balance sheet accounts and the timely reconciliation of these accounts. The District will continue to improve the monitoring of budget to actual expenditures and state and federal compliance to avoid questioned costs and penalties. The District is committed to ongoing training and supervision to ensure accurate financial reporting in accordance to CSAM, and the accounting principles of GAAP as prescribed by GASB.

**FINDING 07-02—
Financial statements
excluded from the scope
of the audit
(30000) (60000)**

The State Controller's Office (SCO) has disclaimed its opinion on the financial statements in all prior audits from FY 2002-03 through FY 2005-06 because of deficient accounting records and supporting documentation. Because of the recurring disclaimers, in May 2008 the district contracted with an accounting firm to reconcile its cash and payroll clearing accounts and address, as necessary, other accounting deficiencies noted in the prior audits. In addition, the district and the SCO agreed, that in order for the SCO to audit and render an opinion on the FY 2006-07 financial statements, the district would:

- Provide a reconciliation of cash and payroll clearing accounts for FY 2002-03 through 2007-08.
- Take the necessary actions to ensure accurate and current accounting records exist for:
 - a. accounts receivable
 - b. capital assets
 - c. accounts payable
 - d. deferred revenue
 - e. long-term debt
 - f. payroll
 - g. revenue
 - h. expenditures
 - i. other related accounts

Due to the complexity in reconciling cash for six fiscal years (FY 2002-03 through FY 2007-08), in January 2009 the district and SCO agreed that the SCO would not audit or render an opinion on the district's financial statements for FY 2006-07.

Good business practices require that:

- Reconciliations are performed of both general ledger accounts and bank accounts in a timely manner to ensure that financial information is correct.
- Payroll expenditures are supported by payroll registers or other documentation.
- All accounts are identified and accurately reflected in the entity's accounting records.
- All financial information reported is timely and accurate.

The district's inability to reconcile general ledger accounts and bank accounts prevents us from determining whether the financial statements accurately reflect the financial position of the district. Consequently, we disclaimed an opinion on the district's 2006-07 financial statements.

Recommendation

To enable the auditor to perform procedures to test the reliability of the financial statements, the district should:

- Continue it's efforts to reconcile all accounts;
- Ensure internal controls are in place and operating effectively; and
- Ensure that fiscal staff are properly trained and supervised.

District's Response

The District is committed to the continuous review and improvement of its oversight of all balance sheet accounts and the timely reconciliation of these accounts. The District will continue to improve the monitoring of budget to actual expenditures and state and federal compliance to avoid questioned costs and penalties. The District is committed to ongoing training and supervision to ensure accurate financial reporting in accordance to CSAM, and the accounting principles of GAAP as prescribed by GASB.

**FINDING 07-03—
Prior year audit financial
statement findings and
recommendations not
implemented
(30000) (60000)**

Our audit was limited in scope and the financial statements were excluded from our testing, as described in Finding 07-02. As a result, we did not determine the implementation status for many of the prior year findings that pertain to financial statement account balances and transactions. We determined the implementation status for some of the prior year financial statement findings in conjunction with assisting the district in the preparation of its financial statements. Many of the financial statement-related findings presented in the prior year's audit report are issues repeated in previous year's audit reports. The district did not perform account reconciliations and continued to show accounting record deficiencies. The district should correct these ongoing deficiencies. The prior year financial statement findings and recommendations are identified and described as follows:

Financial Statement Findings

- Finding 06-01 – Minimum reserves not met.
Repeat of prior year findings 03-01, 04-01, and 05-01.
Partial repeat finding in current year (Finding 07-01).
- Finding 06-02 – Documentation delay and inaccuracies.
Partial repeat in current and prior years (Findings 07-02, 07-04, 07-05, and 07-08).
- Finding 06-03 – Capital asset records incomplete and inaccurate.
Repeat of prior year findings 03-24 to 03-29, 04-09, and 05-02.
Repeat finding in current year (Finding 07-04).
- Finding 06-04 – Payroll deficiencies.
Repeat of prior year Findings 03-42, 03-43, 04-20, and 05-10.
Scope limitation, not audited.
- Finding 06-05 – Cash account deficiencies.
Repeat of prior year findings 03-12, 03-14, 04-03, 04-04, and 05-03.
Scope limitation, not audited.
- Finding 06-06 – Associated Student Body and Subsidiary Funds not presented and not audited.
Repeat of prior year findings 03-60, 04-23, and 05-12.
Repeat finding in current year (Finding 07-07).
- Finding 06-07 – Revenue unauditible.
Repeat of prior year findings 03-17, 04-05, and 05-07.
Scope limitation, not audited.
- Finding 06-08 – Accounts receivable unauditible.
Scope limitation, not audited.
- Finding 06-09 – Deferred revenue unauditible.
Scope limitation, not audited.
- Finding 06-10 – Internal control deficiencies over purchases.
Scope limitation, not audited.
- Finding 06-11 – Accounts payable deficiencies.
Repeat of prior year findings 03-36, 03-37, 04-08, and 05-08.
Scope limitation, not audited.

- Finding 06-12 – Self-Insurance Fund deficiencies.
Repeat of prior year findings 03-56, 04-21, and 05-11.
Scope limitation, not audited.
- Finding 06-13 – Fund balance restatement journal entries not supported by adequate documentation.
Repeat finding in current year (Finding 07-05).
- Finding 06-14 – Inadequate controls over due to/from account transactions.
Scope limitation, not audited.
- Finding 06-15 – Interfund transfer journal entries not supported by adequate documentation.
Scope limitation, not audited.
- Finding 06-16 – Long-term liabilities understated.
Scope limitation, not audited.
- Finding 06-17 – Long-term debt activity not recorded.
Scope limitation, not audited.
- Finding 06-18 – Deficiencies in accounting for emergency apportionment loan.
Scope limitation, not audited.
- Finding 06-19 – Certificates of Participation debt service payments not accurately reported.
Scope limitation, not audited.
- Finding 06-20 – Documentation not provided for capital leases.
Scope limitation, not audited.
- Finding 06-21 – Conversion entries not posted.
Repeat finding in current year (Finding 07-05).
- Finding 06-22 – Deferred maintenance grant not properly matched.
Repeat of prior year findings 03-23, 04-08, and 05-06.
Repeat finding in current year (Finding 07-06).
- Finding 06-23 – County School Facilities Fund local match requirements not met.
Scope limitation, not audited.
- Finding 06-24 – Stores inventory overstated.
Repeat finding in current year (Finding 07-08).
- Finding 06-25 – Insufficient bidding documentation.
Repeat of prior year findings 03-40, 04-19, and 05-09.
Scope limitation, not audited.
- Finding 06-26 – Lack of approval and supervision of construction projects.
Scope limitation, not audited.
- Finding 06-53 – Lack of fiscal monitoring and oversight of district’s charter schools.
Scope limitation, not audited.

Office of Management and Budget (OMB) Circular A-133, section 315(a) states, in part:

The auditee is responsible for follow-up and corrective action on all audit findings

Good internal controls require that the district take appropriate corrective action to address prior year audit findings and recommendations.

Recommendation

The district should ensure that it takes appropriate corrective action to address prior year audit findings and recommendations.

District's Response

The District is committed to the improvement of audit findings and implementation of recommended corrective action.

**FINDING 07-04—
Capital assets records
do not reconcile to
unaudited actuals
(20000) (30000)
(40000) (50000)**

We did not audit the district’s capital assets, but noted discrepancies in its accounting for the assets as follows:

- We were unable to trace capital assets purchased in FY 2006-07 as shown by the purchase date in the district’s asset valuation report to capital assets purchased as shown in the district’s unaudited actuals in Object Code 6000. In addition, we were unable to trace purchases shown in Object Code 6000 to purchases shown in the asset valuation report.
- The capital assets reported on the valuation report as of June 30, 2007 totaled \$530,204,109. The capital assets reported in the district’s list of capital assets (an Excel spreadsheet) as of June 30, 2007, totaled \$546,013,935. The unaudited actuals reported an amount totaling \$554,250,993. The district did not provide an explanation for the noted variances. The following table presents the variances between the unaudited actuals, the asset valuation report, and the capital asset list.

Unaudited Actuals	Asset Valuation Report	District's List of Capital Assets	Variance
\$ 554,250,993	\$ 530,204,109	\$ —	\$ 24,046,884
554,250,993	—	546,013,935	8,237,058
—	530,204,109	546,013,935	(15,809,826)

GASB Statement No. 34, paragraphs 18, 19, and 20 state, in part:

18. Capital assets should be reported at historical cost. The cost of a capital assets should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. . .

19. As used in this Statement, the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. . .

20. Capital assets that are being or have been depreciated (paragraph 22) should be reported net of accumulated depreciation. . .

California Education Code section 35168 states:

The governing board of each school district, shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal. A reasonable estimate of the original cost may be used if the actual original cost is unknown.

CSAM Procedure 430—Capital Assets states, in part:

The accounting system for capital assets should accomplish the following:

1. Conform to Education Code requirements for inventorying capital assets.
2. Enable the LEA to report capital assets and accumulated depreciation in conformity with generally accepted accounting principles.
3. Enable administrators to account for and control all assets under their care.
4. Assist the site administrator in planning and providing proper equipment for schools by furnishing such data as useful life, location, and condition.
5. Aid LEAs in determining insurable values and in securing insurance appraisals.
6. Aid LEAs in substantiating loss in the event of fire, theft, or other catastrophe.
7. Encourage employees and others to better discharge their responsibilities in the care and use of the LEAs equipment.

Education Code section 35168 requires LEAs to maintain records that properly account for equipment whose market value exceeds \$500. To meet this requirement, the LEA must keep records containing the following information about the item:

1. Description
2. Name
3. Identification number
4. Cost
5. Date of acquisition
6. Location of use
7. Time and mode of disposal

OMB, Title 2, CFR part 215: Subpart C, 215.34-Equipment states, in part:

- (1) Equipment records shall be maintained accurately and shall include the following information.
 - (i) A description of the equipment.
 - (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
 - (iii) Source of the equipment, including the award number.
 - (iv) Whether the title vests in the recipient or the Federal Government.
 - (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.

- (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
- (vii) Location and condition of the equipment and the date the information was reported.
- (viii) Unit acquisition cost.
- (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

Good internal controls and prudent accounting practices require the establishment and adherence to sound policies and procedures for capital assets.

We did not audit capital assets and have disclaimed our opinion on capital assets for FY 2006-07.

This condition has been noted in prior year audit Findings 03-24 to 03-29, 04-09, 05-02, and 06-03.

Recommendation

The district should:

- Ensure that its lists for capital assets are complete and accurate;
- Account for variances between its unaudited actuals, valuation report, and capital asset listing;
- Account for the increases and decreases to its capital assets;
- Perform a physical inventory of capital assets at least annually and reconcile to the general ledger; and
- Ensure that it conforms to the requirements for capital assets as indicated in GASB Statement No. 34, California Education Code section 35168, CSAM Procedure 430—Capital Assets, and OMB, Title 2, CFR part 215: Subpart C, 215.34-Equipment.

District's Response

The District is in the process of implementing the IFAS Fixed Assets Module. When fully implemented, the Fixed Assets Module will allow for the accounting of decreases and increases of capital assets. The District will perform an annual inventory of capital assets and reconcile to the general ledger and ensure that it conforms to the requirements of GASB 34.

**FINDING 07-05—
Conversion entries not
posted or not correct
(30000) (60000)**

The financial reports provided by the district were incomplete and inaccurate. The district did not post all necessary conversion entries and posted incorrect balances for some accounts. We noted the following deficiencies:

- BB001—The district posted \$17,701,767 as the beginning balance, July 1, 2006, for the Land account. However, the Land account ending balance, June 30, 2006, was \$17,661,940. A journal entry was posted to increase the beginning balance of Land by \$39,827.
- BB002—The district did not post the June 30, 2006 ending balance of the State School Building loan, \$126, as part of conversion entry BB002 to record balances of unmatured principal of long-term liabilities.

In addition, the district understated the June 30, 2006 ending balance of the Charter School Revolving Loan by \$24,600 (the balance of \$257,934 was reported as \$233,333).

- The district increased the outstanding balance of the State School Building Loan by \$84,099 by posting an Other Worksheet Adjustment as shown on the Conversion from Governmental Funds to Governmental Activities Conversion Worksheet. The district did not provide an explanation of how the increase in the long-term debt affected the governmental financial statements. The district did not provide documentation for the increase or an explanation.
- CE003—The district did not properly record the increase to the General Obligation Bond account when the bond premium of \$3,670,397 was eliminated as Other Financing Sources in the Bond Interest and Redemption Fund during the conversion process. The district reversed the revenue but increased the liability to Other General Long-Term Debt account not the General Obligation Bond Account. The district then eliminated the increase to the Other General Long-Term Debt account by recording an Other Worksheet Adjustment as shown on the Conversion from Governmental Funds to Governmental Activities Conversion Worksheet.
- CE003—The district did not provide a source for \$715,629 reported as Other Financing Sources in the General Fund. The district reversed the revenue but increased the liability to Other General Long-Term Debt account not the General Obligation Bond Account. The district then eliminated the increase to the Other General Long-Term Debt account by recording an Other Worksheet Adjustment as shown on the Conversion from Governmental Funds to Governmental Activities Conversion Worksheet.
- CE010—The district did not eliminate the interest expense relating to the 2005-06 fiscal year that was paid in the 2006-07 fiscal year in the Government-wide Statement of Activities. An adjustment for \$10,632,828 was posted to prevent the interest expense being overstated on the Statement of Activities.

- The district did not accurately identify program resources by function on the district's Government-wide Statement of Activities. Revenue received in six resource codes was not reported by function, therefore, the total of Operating Grants and Contributions was understated by \$13,593,340 on the district's Government-wide Statement of Activities.
- CE012—The district did not allocate the current depreciation expense to each of the functions in the statement of net assets. The depreciation for fiscal year 2006-07, \$11,167,085, was charged to function 0000, which is not an applicable function code for an expenditure. Function 0000, is used with revenues and balance sheet transactions that do not require a function.
- CE013—The district did not report the amortization of premiums, discounts, and deferred charges relating to long-term debt issued in the 2006-07 fiscal year and prior fiscal years.
- CE015—The district did not eliminate the net profit in the Self-Insurance Fund to adjust the costs charged to functions on the Government-wide Statement of Activities. Expenses were overstated by \$2,596,964 on the district's Government-wide Statement of Activities.
- The district does not record the self-insurance obligation in the self-insurance fund. The district records the self-insurance obligation to the government-wide financial statements in the same manner as all other long-term debt. In addition, the district still has not recorded the fiscal year 2005-06 estimated actuarial increase to the self-insurance obligation. The self-insurance obligation is understated by \$3,396,000. (See prior year Finding 06-12.)

We also noted that the beginning fund balance for the Bond Interest and Redemption Fund was increased by \$218,000 with out any explanation or supporting documentation. An adjusting journal entry was posted to record the increase as a restatement.

California School Accounting Manual (CSAM) Procedure 101 states, in part:

The new GASB Statement 34 reporting model requires the following financial statements and related information:

- Management Discussion and Analysis (MD&A) as Required Supplementary Information
- Basic Financial Statements:
 - Government-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- Required Supplementary Information other than MD&A

The MD&A, Basic Financial Statements, and Required Supplementary Information other than MD&A represent the minimum standard for governmental financial reporting in conformity with GAAP.

California LEAs may, but are not required, to go beyond these minimum requirements and present a comprehensive annual financial report (CAFR)

CSAM Procedure 105 states, in part:

Local education agencies (LEAs), like all other types of business, use accounting to record, analyze, and summarize their financial activities and status. Once the information is accumulated, it is the accountant's responsibility to evaluate, interpret, and communicate the results to all interested parties.

CSAM Procedure 215 states, in part:

It is the responsibility of the LEA to prepare all of the financial statements, notes, and schedules that are the subject of the audit.

Generally accepted accounting principles and prudent business practices require financial statements to accurately reflect all transactions.

This is a repeat of prior year Finding 06-21.

Recommendation

Staff should be properly trained in the preparation of the district's financial statements. District management should contact the California Department of Education for guidance or assistance in providing this staff training.

District management should establish and adhere to internal controls, policies and procedures that ensure that all necessary conversion entries are posted and financial reports are complete and accurate.

District's Response

The District is committed to ongoing staff training and improvement in financial statement preparation and review.

**FINDING 07-06—
Deferred maintenance
grant not properly
matched
(30000) (60000)**

Our review of the district’s Deferred Maintenance Fund revealed that:

- The district transferred \$2,060,010 from the Building Fund (Fund 21) to the General Fund (Fund 01) and from the General Fund to the Deferred Maintenance Fund (Fund 14). This transfer appears to be the district’s matching share for the Deferred Maintenance program. The use of General Obligation Bond Fund (Fund 21) moneys for the matching share is not in accordance with the CCR, Title 2, section 1866.4.3. Therefore, the use of the funds for this purpose was inappropriate.
- The district recorded the transfer to resource code 9099, GO Bonds. Both Measure A and C have been recorded to resource code 9099; therefore, it is not possible to trace the expenditure to a specific bond measure. Neither bond Measure A nor C authorized proceeds to be used for deferred maintenance such as to repair roofs.
- The district recorded the transfer of bond proceeds into the Deferred Maintenance Fund to resource 6205, deferred maintenance apportionment. The state apportionment was also recorded to resource 6205. Therefore, the district’s transfer of bond proceeds cannot be separately identified from the state apportionment.

Education Code section 17582 (a) states, in part:

The governing board of each school district may establish a restricted fund to be known as the “district deferred maintenance fund” for the purpose of major repair or replacement . . . and any other items of maintenance approved by the State Allocation Board.

CSAM, Procedure 305, Building Fund definition states, in part:

This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146). . . . Expenditures in Fund 21, Building Fund, are most commonly made against the 6000 object codes for capital outlay. Another example of an authorized expenditure in Fund 21 is repayment of State School Building Aid out of proceeds from the sale of bonds (*Education Code* Section 16058).

CCR, Title 2, Chapter 3, Subchapter 4, Group 1, Subgroup 12, Article 4, Section 1866.4.3 states, in part:

The district’s deposit must be a cash contribution from unmatched carryover pursuant to Section 1866.4.4, or from the district’s restricted Ongoing and Major Maintenance Account, or from any source not otherwise prohibited by law or regulation.

Bond Measure A states:

To relieve overcrowding in Oakland’s neighborhood schools and improve educational facilities for children, through projects such as constructing new schools; renovating classrooms and bathrooms, replacing electrical, plumbing, heating and ventilation systems; upgrading science labs and libraries, restoring arts/music rooms; and replacing deteriorating portable classrooms.

Bond Measure C states:

To provide safer neighborhood schools and improve learning skills necessary to our children's future, shall the Oakland Unified School District issue bonds to:

- Reduce dangers from earthquakes and other hazards
- Upgrade vocational, library, science and computer classrooms,
- Provide disabled access,
- Repair inadequate lighting, heating, plumbing and electrical systems.

This is a repeat of prior year Finding 06-22. The district did not provide a response to this finding in the prior year. This is also a repeat of prior year Finding 05-06.

Recommendation

The district should:

- Ensure that bond proceeds used to match state deferred maintenance allocations retain their identity as bond proceeds.
- Identify in the five-year deferred maintenance plan, the project costs that are an allowable expenditure of bond proceeds.
- Transfer \$2,060,010, plus interest, back to the building fund from the deferred maintenance fund. Transfers made in prior years should also be reversed.
- Track bond proceeds by measure and issue.

District's Response

The District disagrees with this finding and obtained a legal opinion to support position. This document was provided to SCO.

SCO Comment

The District provided a copy of legal opinion, dated January 17, 2005, from Orrick, Herrington & Suttcliffe on July 26, 2009.

The legal opinion states, in part, that:

If bond proceeds are used to fund a portion of the annual contribution, or occasional annual contributions, to the restricted Ongoing and Major Maintenance Account, then such funds must be segregated within the account and tracked in such a way as to ensure that bond funds will only ever be applied to those projects constituting real property improvements – whether “major maintenance” or deferred maintenance projects – and never to projects for the “regular maintenance and routine repair” of State-funded facilities.

We have also concluded that the District's bond funds authorized under Measure C and Measure A may be used to fund the District's required annual match for purposes of receiving State deferred maintenance grants, so long as the district can ensure that the bond proceeds will only be spent for "improvement of real property" projects within the meaning of relevant bond law.

The legal opinion supports the District's position that the transfer of bond proceeds to the Deferred Maintenance Fund is appropriate only if the bond proceeds are segregated and tracked to ensure that the proceeds are expended for the improvement of real property as major maintenance or deferred maintenance projects.

Our review disclosed that the District did not identify the funds transferred into the Deferred Maintenance Fund as bond proceeds transferred from the Building Fund. In addition, the District did not identify which expenditures were paid with the bond proceeds. As a result, the District cannot ensure that the bond proceeds are only expended for improvement of real property.

This has been an ongoing issue since 2002-03. Since the District cannot or will not identify how the bond proceeds were used, it should transfer \$2,060,010, plus interest, back to the Building Fund from the Deferred Maintenance Fund. Transfers made in prior years should also be reversed.

On October 15 and 16, 2009, the District provided additional finding responses and responses to SCO Comments. These additional responses are included as an attachment at the end of this report.

Our finding remains unchanged.

**FINDING 07-07—
Associated student
body and subsidiary
funds not presented
and not audited
(30000)**

The district did not provide any financial data regarding its associated student body (ASB) and subsidiary funds, and did not present the funds in financial statements as required under generally accepted accounting principles (GAAP). GAAP requires that the basic financial statements for a local government include separate fund based presentations for each fund classification.

In addition, our previous years' audits (Findings 03-60 and 04-23) noted a broad range of deficiencies that appear to be systemic to the funds' structure and accounting methods. Our follow-up on the findings for the FY 2004-05 audit disclosed that little had changed or improved. District management stated that the district had made no changes in accounting methods or internal controls over the funds during the FY 2005-06 and FY 2006-07. Consequently, we did not audit ASB and subsidiary funds for the fiscal year ended June 30, 2007.

In general, the deficiencies we noted in previous years involved:

- Improper management of the student body accounts and inappropriate commingling of those funds with other moneys by the school sites.
- Inadequate accounting of the student body funds by the school sites and inaccurate reporting to the district and by the district of those funds.
- Inadequate training of both district and school site staff relative to accounting and reporting requirements for student body and subsidiary funds.
- School sites do not typically prepare or use budgets for their student body funds.
- Subsidiary funds belonging to the district are not included in the district's financial reports.

Good internal controls require that the moneys included in student body funds be accounted for separately and not commingled with funds used for other purposes over which the student body does not have control. Good internal controls further require the establishment and use of budgets. Staff responsible for accounting for student body funds should be adequately trained. Separate bank accounts should be maintained for ASB funds and trust (scholarship) funds so that they may be accounted for separately from other site subsidiary funds. The same type of ASB funds can be combined in one bank account as long as there is a detailed accounting for each club or component of the account (for example, music club, drama club, computer club, student council, class accounts, etc.).

This is a repeat of prior year Findings 05-12 and 06-06.

Recommendation

The district should:

- Provide the financial data so that Associated Student Body and Subsidiary funds can be included in the district's audited financial statements.
- Revise its policy to require that student body funds be accounted for separately from other subsidiary funds.
- Segregate associated student body funds from other non-student body funds at each of the sites by establishing separate bank accounts. Separate check stock should be used in the name of the student body group or organization.
- Consider implementing a computerized network method of accounting for subsidiary funds. If the accounting for student body and other subsidiary funds were computerized, the funds could be more readily and accurately tracked, and the reporting to the district office by the sites could be accomplished more quickly.
- Provide training on an annual basis to all staff members who work with associated student body operations and other subsidiary fund activities. Either the *School Treasurer's Manual* should be reviewed and updated for school treasurers, as necessary, or the FCMAT ASB Accounting Manual should be adopted as the definitive guide.
- Establish and maintain budgets for each student club and group.
- Establish a process to ensure that cash maintained in subsidiary accounts is posted to the district accounting system for inclusion in the financial report, and establish a process for including the ASB moneys in the financial reporting as part of the fiduciary funds.

District's Response

The District is committed to the ongoing improvement and monitoring of the ASB and subsidiary funds. The District will provide ongoing training in the proper use and recording of such funds. The District's internal auditor is undergoing an extensive review of the current practices and policies and will provide recommendations for the monitoring and oversight of such funds.

**FINDING 07-08—
Stores inventory
overstated
(30000) (60000)**

The district did not maintain a stores inventory in the Cafeteria Fund during fiscal year 2006-07; however, the unaudited actuals were not adjusted to reflect a zero balance for stores inventory. The district failed to make a journal entry to correct the value of inventory reported in the unaudited actuals. The district reported an inventory value of \$188,109 at June 30, 2007. The June 30, 2005 and the June 30, 2006 audit reports reported the same stores inventory value.

The amount of stores inventory is overstated by \$188,109.

We did not perform any audit procedures to test the accuracy of the district's stores inventory food report and we did not post any adjusting journal entries because the amount was immaterial.

CSAM Procedure 405 states, in part:

Physical Inventory

As discussed in Procedure 410, LEA staff should take a physical count of the inventory at least once a year to confirm that the amount recorded on the LEA's books is correct or to adjust the amount on the books to the actual amount. Once the count is complete, an entry must be made to adjust the books to the physical count.

This is a repeat of prior year findings 06-24.

Recommendation

The district should follow CSAM directives and adjust the unaudited actuals to ensure that the value of inventory is accurately reported.

District's Response

The warehouse was discontinued in prior years and the balance was adjusted to reflect this in fiscal year 2007-2008.

SECTION III—FEDERAL AWARD FINDINGS**FINDING 07-09—
Internal controls over
federal award programs
not relied upon
(50000)**

**CFDA #10.555, #84.010,
#84.027, #84.287, #84.357,
#84.367, and #93.596—
U.S. Department of
Agriculture, U.S.
Department of Education,
U.S. Department of Health
and Human Services,
California Department of
Education**

Due to the district's inadequate internal controls, we disclaimed an opinion on the financial statements and were unable to:

- Obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low level of control risk for major programs.
- Rely on the accuracy and completeness of the district's financial records in determining whether costs charged to the major federal programs were allowable for the following major federal programs:
 - Title I
 - Title I – Reading First State Grants
 - Title II – Improving Teacher Quality State Grants
 - Special Education
 - 21st Century Community Learning Centers
 - Child Care and Development Fund Cluster
 - National School Lunch Program

As a result, our testing of allowable costs was limited to judgmentally selecting and testing unusual or material costs. We noted some issues of non-compliance which are described in Findings 07-17, 07-18, and 07-19.

OMB Circular A-133, Subpart C, section 300 states, in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 2 CFR Part 225 (OMB Circular A-87), Appendix A, Section C, states:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
 - c. Be authorized or not prohibited under State or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal awards as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal awards as an indirect cost.
- g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of applicable credits.
- j. Be adequately documented

Internal control deficiencies over federal award programs have been identified in each of the four prior years' audits and were identified in Findings 03-75, 03-78, 04-24, 04-28, 05-14, and 06-27.

Recommendation

The district should establish and implement internal controls over federal programs to ensure compliance set forth for each major program. In addition, the district should maintain adequate documentation to support the allowability of costs incurred.

District's Response

The District implements its policy for invoice authorization for federally funded programs for approving invoices for payment by authorized staff. The authorization process includes the following processes and procedures:

- Authorized individuals for each federally funded program are identified at the beginning of each school year for the approval process. These authorized approvers are identified in the IFAS accounting software approval processes and as authorized signers for specific supporting documents. These individuals are **reported to the auditors during the audit review.**
- The authorized individuals review each transaction and supporting documentation to ensure that the expenditure is compliant for a specific funding source.
- Accounts Payable staff does not pay invoices without authorized signer documentation.
- OUSD supports the process of ensuring that categorical program requirements are properly addressed through ongoing training and support for all staff that are directly involved in the process. This would include staff that generate requisitions, review and approve requisitions, and pay invoices.

- California Department of Education (CDE) program leadership continues to be consulted on further clarification on the compliant use of funds for specific resources.

OUSD is committed to the process of continuous review and improvement of its systems of procurement and payment in order to ensure the compliant use of funds. These improved processes will ensure appropriate audit documentation for expenditures.

SCO Comment

The same lack of internal controls, inadequate supporting documentation that prevented us from opining on the financial statements, also prevented us from determining whether the district complied with federal program requirements. In addition, the district's lack of technical knowledge of software contributed to the district's inability to comply with federal program compliance requirements.

**FINDING 07-10—
Controls over equipment
and real property not
relied upon
(20000) (50000)**

**CFDA #10.555, #84.010,
#84.027, #84.287, and
#93.596—
U.S. Department of
Agriculture, U.S.
Department of Education,
U.S. Department of Health
and Human Services,
California Department of
Education**

Due to the disclaimer of opinion on the financial statements, the continuing inadequacy of the district's internal controls, and capital asset record deficiencies identified in Finding 07-04, we could not rely on the accuracy and completeness of the district's financial records and we were unable to determine the district's compliance with federal requirements over equipment and real property management and disposition for the following major Federal programs:

- Title I
- Special Education
- 21st Century Community Learning Center
- Child Care and Development Fund Cluster
- National School Lunch Program

OMB Circular A-133, Compliance Supplement, Part 3—Compliance Requirements, F. Equipment and Real Property Management states in part:

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

California Education Code section 35168 states:

The governing board of each school district, shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal. A reasonable estimate of the original cost may be used if the actual original cost is unknown.

CSAM procedure 430—Capital Assets states in part:

Since capital assets represent one of the largest investments of an LEA, control and accountability are of significant concern. Generally accepted accounting principles regarding internal controls, Education Code Section 35168, and federal funding agencies require LEAs to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is important of the size of the LEA.

The accounting system for capital assets should accomplish the following:

1. Conform to Education Code requirements for inventorying capital assets.
2. Enable the LEA to report capital assets and accumulated depreciation in conformity with generally accepted accounting principles.
3. Enable administrators to account for and control all assets under their care.
4. Assist the site administrator in planning and providing proper equipment for schools by furnishing such data as useful life, location, and condition.
5. Aid LEAs in determining insurable values and in securing insurance appraisals.
6. Aid LEAs in substantiating loss in the event of fire, theft, or other catastrophe.
7. Encourage employees and others to better discharge their responsibilities in the care and use of the LEA's equipment.

CSAM Procedure 770—Distinguishing Between Supplies and Equipment states in part:

It is easy to reconcile additions to the property inventory with accounting records. First, assets that are capitalized are always also inventoried. Acquisitions of capitalized assets are usually recorded in Objects 6000, Capital Assets, or occasionally in other objects in combination with Function 8500, Facilities Acquisition and Construction. Expenditures in these accounts should always reconcile to the additions of capital assets to the property inventory.

Second, acquisitions of assets that will not be capitalized but that will be inventoried are recorded in Object 4400, Noncapitalized Equipment. For example, assume that an LEA maintains an inventory of items of property costing more than \$500 and that the LEA has a capitalization threshold of \$5,000. The LEA would charge expenditures for items of property costing more than \$500, but less than \$5,000, to Object 4400, Noncapitalized Equipment. Expenditures in this account should reconcile to the additions of noncapitalized assets to the property inventory.

This LEA would charge items of property costing less than \$500, such as adding machines and staplers, to Object 4300, Materials and Supplies. These items would be neither capitalized nor inventoried.

EDGAR Subpart 80 Subpart C, Sec. 80.20 (b) (3) states in part:

Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

This is a repeat finding of prior year Findings 06-03 and 05-17.

Recommendation

The district should ensure that internal controls over equipment and real property are sufficient to provide reasonable assurance that the district manages and disposes of equipment and real property in accordance with federal and state requirements.

District's Response

In 2008, as part of the Internal Fiscal and Accounting System (IFAS) Upgrade Project, the OUSD Technology Services Department documented that the Fixed Assets intake and distribution process would function within the existing system and would not invalidate any existing procedures. The IFAS Fixed Assets Module is functional.

OUSD is in the process of implementing the IFAS Fixed Assets Module. When fully implemented, the Fixed Assets Module will ensure that OUSD has sufficient internal controls over equipment and real property to ensure that both equipment and real property are managed and disposed of in accordance federal and state requirements.

**FINDING 07-11—
No policies and
procedures over
procurement,
suspension, debarment
(50000)**

**CFDA #10.555, #84.010,
#84.027, #84.287, #84.357;
#84.367, and #93.596—
U.S. Department of
Agriculture, U.S.
Department of Education,
U.S. Department of
Health and Human
Services, California
Department of Education**

During our review of the district’s policies and procedures for federal procurement, suspension and debarment requirements, the district informed us that it had no policies and procedures in place.

As a result, we were unable to perform the required compliance procedures for federal programs.

OMB Circular A-133 Compliance Supplement, Part 3 – Compliance Requirements, I. Procurement and Suspension and Debarment states, in part:

Procurement

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Requirements for procurement are contained in the A-102 Common Rule (§____.36), OMB Circular A-110 (§____.40 through §____.48), Federal awarding agency regulations, and the terms of the award. . . .

Suspension and Debarment

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under nonprocurement suspension and debarment rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 (the “small purchase” or “simplified acquisition threshold”). A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date “covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. §__.220 of the governmentwide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions—this was the case before November 26, 2003, and was not changed by the revised rules.

Under rules in effect prior to November 26, 2003, contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§__.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is

published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

Requirements for suspension and debarment are contained in the Federal agencies' codification of the governmentwide nonprocurement debarment and suspension common rule. . . . Note that on November 15, 2006, OMB reissued its debarment and suspension guidance in 2 CFR part 180. This guidance is substantially the same as the common rule published November 26, 2003. Some Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules; others have issued their adopting rules as "proposed" or "interim final rules." For these latter agencies, pending completion of that adoption, agency implementations of the common rule remain in effect. . . .

OMB Circular A-133, Subpart C, Section 300 states, in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

This is a repeat of prior year Finding 05-14.

Recommendation

The district should establish policies and procedures for procurement, suspension and debarment that comply with OMB Circular A-133 requirements.

District's Response

During the 2009-2010 school year, the district will development and establish policies and procedures for procurement, suspension and debarment that fulfill all program requirements and comply with OMB Circular A-133 mandates.

**FINDING 07-12—
Inadequate employee
time certification
records
(30000) (50000)**

**CFDA #10.555, #84.010,
#84.027, #84.287, 84.357,
#84.367, and #93.596—
U.S. Department of
Agriculture, U.S.
Department of Education,
U.S. Department of
Health and Human
Services, California
Department of Education**

We reviewed time certifications for 109 of 2,128 employees whose salaries were charged to federal programs. Our sample was based on a random sample of employees who charged time to one of the major federal programs. For each major program, we selected ten percent up to a maximum of 20 employees. We determined that the district did not maintain adequate records to support salary expenditures charged to the major federal programs for any of the employees tested.

We identified the following deficiencies:

- 67 employees did not complete any time certifications to confirm that their time was charged to the appropriate federal program.
- 27 employees did not complete the time certifications in a timely manner. For multi-funded employees, the time certification should be complete within the following month. For employees funded from a single program, the time certification should be completed semi-annually – every six months.
- 14 employees did not complete all required time certifications. For multi-funded employees, time certifications were not completed for each pay period. For employees funded from a single program, a time certification was not completed for each six-month period.
- One employee certified that they were working 100 percent for the Title I program in addition to certifying that they were multi-funded for the Reading First program for the month of March 2007.

In addition, the district did not provide any documentation, such as time certifications, as evidence that teacher stipends were charged to the appropriate federal program. For two of the ten sampled employees who received stipends, we identified that their salaries were charged to one federal program while the stipend was charged to a different federal program.

The district stated that “school site personnel receiving stipends receive the stipends as an addition to their salary. The stipend is not for additional hours of work, but rather in recognition of the higher complexity and responsibility of the position they have taken on.”

As a result of the 100% error rate in the time certifications tested, \$37,885,447 in salaries and benefits charged to federal programs identified in the district’s general ledger are in question.

Title 2, CFR 225 (OMB Circular A-87), Appendix B, Section 8(h) states, in part:

Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . .

- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.
 - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
- (6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

- (a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:
 - (i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix;
 - (ii) The entire time period involved must be covered by the sample; and
 - (iii) The results must be statistically valid and applied to the period being sampled.
 - (b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.
 - (c) Less than full compliance with the statistical sampling standards noted in subsection 8.h.(6)(a) of this appendix may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.
- (7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

OMB Circular A-133 Compliance Supplement, Part 3-Compliance Requirements, B. Allowable Costs – Direct Costs, 4. a. (10) requires:

- (10) Salaries and wages charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied, and provided that the charges for work performed directly on sponsored awards have been determined in accordance with and supported by the provisions of A-21, section J.10 as follows:
- (a) Distribution of salaries and wages is based on payrolls documented in accordance with the generally accepted practices of the institution.
 - (b) Apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective is accomplished by methods which-
 - (i) Comply with A-21, sections A.2 and C,
 - (ii) Produce an equitable distribution of charges for employees' activities, and
 - (iii) Distinguish the employees' direct activities from their indirect activities.

- (c) The payroll distribution is based on an after-the-fact confirmation or determination that costs distributed represent actual costs. Confirmation should be by a responsible person with suitable means of verification that the work was performed. Confirmation by the employee is not required if other responsible persons make appropriate confirmations.

CSAM Procedure No 905 states, in part:

If an employee is funded solely (100 percent) from a single federal categorical program or cost objective or from a single nonfederal categorical program used in meeting cost sharing or matching requirements of federal awards, the minimum requirement for documenting salary or wages is a semiannual certification by the employee that he or she worked solely on that federal categorical or cost objective during the period covered by the certification. The certification must be signed by the employee or the supervisor having firsthand knowledge of the work performed. . . .

Whenever an employee works in more than one categorical program or cost objective and at least one of the sources is federal, the employee's entire salary must be supported by a PAR or equivalent documentation. . . .

Whenever federal funding is used to fund an employee's salary (unless the employee is 100 percent funded from only one federal source or in an SWP (Schoolwide Program) or covered under the federally approved substitute system as noted previously), the time spent by the employee on federal projects must be documented with a PAR or an equivalent document. . . .

The level of detail can generally be determined by the diversity and variation of the employee's work activities. OMB Circular A-87 states that PARs or equivalent documentation must:

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Be prepared at least monthly and coincide with one or more pay periods.
- Be signed by the employee

LEAs are required to provide supporting documentation for salaries and wages charged to *state restricted programs* (resources). The LEA may elect to use either the same A-87 documentation methods used to support salaries and wages charged to federal programs, as described in "How to Document Federally Funded Salaries and Wages. . ." or alternative documentation requirements for state programs. . .

Good internal controls require that adequate records be maintained and time certifications be completed at or near the end of the time period covered by the certification.

This is a repeat of prior audit Findings 06-28, 05-15, 04-25, and 03-70.

Recommendation

The district should ensure that the employees whose salaries, wages, and/or stipends are funded through a federal program complete a time certification in compliance Title 2, CFR 225 (OMB Circular A-87), Appendix B, Section 8(h) and CSAM Procedure No. 905, and ensure that the time certifications are complete, accurate and submitted in a timely manner.

District's Response

In the spring of 2006 Oakland Unified School District (OUSD) introduced the Federal Time Accounting online reporting tool. The large number of employees required to submit time accounting timesheets dictated that OUSD needed technology to support the process. The design of the tool enabled OUSD employees either partially or fully funded by federal programs to log onto the tool via the OUSD intranet, input the hours they worked that were compliant the listed funding source(s), and then print, sign, and file the document.

The tool is designed to then enable State and Federal Compliance staff to clearly see who has successfully completed the forms – and which staff have hours worked that match the hours funded by the listed federal programs.

On a monthly basis a report listing those staff who had not submitted federal time accounting timesheets via the online tool is generated and shared with their supervisors with the reminder that staff are required to completed and submit the timesheets via the online tool.

OUSD continues to improve the federal time accounting reporting success rate through the integration and use of technology (the online time accounting tool) and the use of improved and more efficient processes (in the case of Nutritional Services and Early Childhood Education). OUSD continues to work on more effective and collaborative systems of reporting time accounting data to supervisors in order to continually increase the success rate for completing and submitting online federal time accounting timesheets.

OUSD is working with the California Department of Education School Fiscal Services Division to develop a plan of action that addresses this finding.

SCO Comment

On October 15 and 16, 2009, the District provided additional finding responses and responses to SCO Comments. These additional responses are included as an attachment at the end of this report.

Our finding remains unchanged.

**FINDING 07-13—
Interest earned on
federal funds not
calculated or remitted
(30000) (50000)**

**CFDA #10.555, #84.010,
#84.027, #84.287, 84.357,
#84.367, and #93.596—
U.S. Department of
Agriculture, U.S.
Department of Education,
U.S. Department of
Health and Human
Services, California
Department of Education**

During our review of federal cash management, we determined that the district did not calculate interest earned on advances deposited in Cash in County Treasury and did not remit interest income to the appropriate federal agency.

Because the district could not provide the amount of cash in county treasury on deposit, by federal program, for each day of the year, we were unable to determine the amount of interest earned on the federal funds that should have been returned to the federal agencies.

OMB Circular A-133 Compliance Supplement, Part 3-Compliance Requirements, C. states, in part:

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. . . .

The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a.), the A-102 Common Rule (§___.21), OMB Circular A-110 (§___.22), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.

EDGAR Part 80 Subpart C, Section 80.20(b)(3) states:

Internal Control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. . . .

EDGAR Part 80 Subpart C, Section 80.21states, in part:

(f) (1) Grantees and subgrantees shall disburse repayments to and interest earned on a revolving fund before requesting additional cash payments for the same activity.

- (i) Interest earned on advances. . . grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Recommendation

The district should calculate the interest earned on federal advances deposited in Cash in County Treasury and remit the interest earned to the appropriate federal agency.

District's Response

OUSD collaborated with the Alameda County Office of Education (ACOE) to establish a procedural system that ensures compliance with all regulations in this area. OUSD is implementing the procedural system.

**FINDING 07-14—
Title I: Schoolwide plan
deficiencies
(50000)**

**CFDA #84.010—
U.S. Department of
Education, California
Department of Education**

During our review of the Title I schoolwide program, we identified that its schoolwide plan did not include transition plans for assisting preschool children in the successful transition to the schoolwide program as required by OMB Circular A-133.

As a result, all Title I funding for the district's elementary schools is in question, which equates to \$9,846,540.

OMB Circular A-133, Compliance Supplement, Part 4 - Department of Education (ED), Crosscutting Section, Section III. N.2. states, in part:

Compliance Requirements - A school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs and other Federal...State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

- a. To operate a schoolwide program, a school must include the following three core elements:
 - (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
 - (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
 - (3) Annual evaluation of, and results achieved by, the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).
- b. A schoolwide plan also must include the following components:
 - (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
 - (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).
 - (3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
 - (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).
 - (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).

This is a repeat of prior year Findings 05-17 and 04-31.

Recommendation

The district should ensure the schoolwide plan includes transition plans for assisting preschool children in the successful transition to the schoolwide program.

District's Response

OUSD has implemented a review process for the 2007-2008 (and ongoing) Single Plan for Student Achievement (SPSA), integrating a checklist into the SPSA document which includes all mandated School Wide Program (SWP) components. All SPSAs are reviewed by State and Federal Compliance staff to ensure they contain all mandated SWP activities.

**FINDING 07-15—
Title I—Private
school allocation and
expenditure
documentation
deficiencies
(30000) (50000)**

**CFDA #84.010—
U.S. Department of
Education, California
Department of Education**

The district provided Title I services to 18 private schools; however, we were unable to determine the amount of Title I expenditures per private school due to discrepancies between the district's allocation schedules and expenditure documentation. Neither the allocation schedules nor expenditure documentation equaled the amount allocated to the private schools on the consolidated application. Therefore, we could not determine that the amount of services provided to private schools was equal to the amount attributable to the private schools as indicated on the consolidated application.

We determined that the schedule of allocated funds for private schools prepared by the district did not reconcile to the Consolidated Application, as follows:

Name of School	District's Final Allocation	Consolidated Application	Variance
Atherton	\$ 23,774.80	\$ 24,615.00	\$ (840.20)
Bishop O'Dowd	14,859.25	15,385.00	(525.75)
Clara	18,425.47	19,077.00	(651.53)
Guice	17,831.10	18,461.00	(629.90)
Holy Names	11,887.40	12,309.00	(421.60)
Lincoln	14,264.88	94,257.00	(79,992.12)
Muhammad	17,236.73	17,847.00	(610.27)
Northern Light	11,293.03	11,693.00	(399.97)
Patten	25,557.91	26,462.00	(904.09)
St. Andrew	15,453.62	16,000.00	(546.38)
St. Anthony	49,332.71	51,078.00	(1,745.29)
St. Bernard	42,200.27	43,692.00	(1,491.73)
St. Elizabeth	148,592.50	153,847.00	(5,254.50)
St. Jarlath	34,473.46	35,693.00	(1,219.54)
St. Lawrence	16,642.36	17,231.00	(588.64)
St. Leo	10,104.29	10,458.00	(353.71)
St. Martin	79,051.21	81,847.00	(2,795.79)
St. Vincent's	15,453.62	16,000.00	(546.38)
Total			\$ (99,517.39)

The variances were discussed with district staff and they agreed that the allocations reported on the Consolidated Application did not agree to the district's final allocation schedule.

In addition, our calculation of the district's private school allocation based on district expense reports did not reconcile to the district's allocation schedule, as follows:

Name of School	District's Final Allocation	District Expense Reports	Variance
Atherton	\$ 23,774.80	\$ 24,310.40	\$ (535.60)
Bishop O' Dowd	14,859.25	13,370.72	1,488.53
Clara	18,425.47	18,840.56	(415.09)
Guice	17,831.10	18,232.80	(401.70)
Holy Names	11,887.40	12,155.20	(267.80)
Lincoln	14,264.88	14,586.24	(321.36)
Muhammad	17,236.73	17,625.04	(388.31)
Northern Light	11,293.03	11,547.44	(254.41)
Patten	25,557.91	26,133.68	(575.77)

St. Andrew	15,453.62	15,801.76	(348.14)
St. Anthony	49,332.71	50,444.08	(1,111.37)
St. Bernard	42,200.27	43,150.96	(950.69)
St. Elizabeth	148,592.50	142,823.60	5,768.90
St. Jarlath	34,473.46	35,250.08	(776.62)
St. Lawrence	16,642.36	17,017.28	(374.92)
St. Leo	10,104.29	10,331.92	(227.63)
St. Martin	79,051.21	79,008.80	42.41
St. Vincent's	15,453.62	15,801.76	(348.14)
Total			<u>\$ 2.29</u>

Although the overall variance is immaterial, the variances for each private school reflect an internal control deficiency. As a result of the variances between the district's final allocation report, district expense reports, and the Consolidated Application, we cannot rely on the validity of the information and all funding for private and public schools, therefore the amount of \$25,046,972 is in question.

OMB Circular A-133, Compliance Supplement, Part 4 - Department of Education (ED), Crosscutting Section, Section III.N.1. states in part:

For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).

EDGAR 80.20 Subpart C, Section 80.20(b)(1) states, in part:

Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Good internal controls require that records be complete and accurate.

Recommendation

The district should ensure that documentation supporting private school allocations and expenditures is accurate.

District's Response

OUSD recognized the need to fully integrate the Private Schools Program fiscal activities into the district's fiscal system (IFAS). This process was completed and implemented during the 2007-2008 school year.

This system improvement means that the Private Schools Program has a single fiscal system which integrates and tracks all financial activities (budget allocations, transfers, requisitions, payments, etc.) for each participating private school.

The audit report for this finding contains the comment, "Although the overall variance is immaterial, OUSD is committed to ensuring that all program requirements are met."

SCO Comment

The district did not quote our complete statement in its response. The finding contains the comment, "Although the overall variance is immaterial, the variances for each private school reflect an internal control deficiency." The statement is meant to emphasize the fact that the lack of internal controls, which resulted in unreliable information, is a significant issue and should not be ignored because the overall variance is not material. Because we cannot rely on the internal controls over the Title I program or source documents provided, the total expenditures of \$25 million is questioned.

On October 15 and 16, 2009, the District provided additional finding responses and responses to SCO Comments. These additional responses are included as an attachment at the end of this report.

Our finding remains unchanged.

**FINDING 07-16—
Title I: Highly qualified
teacher credential
discrepancies
(50000)**

**CFDA #84.010—
U.S. Department of
Education, California
Department of Education**

During our review of the Title I program, we determined that the district did not ensure that all teachers of core academic subjects were highly qualified. Our testing of 37 teachers, from the total population of 1,692¹, or 2.19%, performed as part of our state compliance procedures (see Finding 07-24—Non-compliance with teachers’ credential requirements), disclosed the following credential deficiencies:

- One teacher did not possess a valid teaching credential for 150 days of the school year.
- One teacher only had an emergency 30-day teaching credential, and did not have a valid teaching credential for the remainder of the school year.
- Three teachers taught subjects that were not consistent with their credentials.
- Nine teachers who taught classes with 20 percent or more English language learners were not authorized to provide teaching services to English learners.

If teachers are not credentialed, or if teachers do not possess the proper credentials, the educational needs of the students may not be met.

OMB Circular A-133 Compliance Supplement, Section 4-84.010, Section III.N.6., Highly Qualified Teachers and Paraprofessionals, states, in part:

Beginning after the first day of the 2002-03 school year, an LEA had to ensure that any teacher whom it hired to teach a core academic subject and who worked in a program supported with Title I, Part A funds was highly qualified as defined in 34 CFR section 200.56. This requirement applied to teachers in Title I targeted assistance programs who taught a core academic subject and were paid with Title I, Part A funds and to all teachers who taught a core academic subject and were paid with Title I, Part A funds and to all teachers who taught a core academic subject in a Title I schoolwide program school. By the end of the 2005-06 school year, the LEA had to ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, are highly qualified. “Core academic subjects” means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. . . .

The U.S. Department of Education defines highly qualified teachers as follows:

To be deemed highly qualified, teachers must have: 1) a bachelor’s degree, 2) full state certification or licensure, and 3) prove that they know each subject they teach.

This is a repeat of prior year Finding 06-34.

¹ See Finding 07-34.

Recommendation

The district should ensure that all teachers are highly qualified and that they:

- Possess valid teaching credentials for the entire school year;
- Teach subjects consistent with the subject areas identified on their credentials;
- Possess required authorizations if they teach classes with 20 percent of more English language learners.

District's Response

The following has been done to ensure compliance with both teacher credentialing and HQT requirements:

The district continues to implement preventive systems of tracking highly qualified teachers within school site assignments. For Fiscal Year 2008-2009 an accounting software IFAS tracking module was added to the ARIES master schedule tracking system to ensure NCLB compliance at each school site. The process of maintaining No Child Left Behind (NCLB) teacher compliance includes the following:

- At the beginning of each school year, the tracking module is run weekly for the first four to six weeks to ensure teachers with the proper credentials are assigned to appropriate classes.
- Principals are notified weekly of any changes that must be made with teacher assignments to ensure highly qualified teacher compliance in all subject areas.
- In the areas of special education, teachers are supported in completing all highly qualified teacher requirements.
- All teachers are also provided with extensive services to help them pass their CSET exams including participation in Californian Subject Examination for Teachers (CSET) preparation courses and individual plan support.
- District subsidizes the cost of the California Teachers of English Learners (CTEL) exam for teachers (up to \$1,000).
- Every month the Executive Officer of Human Resources sends to the Executive Staff a report of teachers who will have credentials expiring. Teachers can be terminated if they do not show evidence within a specific timeline that their credential has been renewed with the essential highly qualified teacher requirements in the subject area.
- Working with the support of the Oakland Education Association (teachers' union) to stress the importance of all teachers having required EL authorization.
- Working with site administrators to ensure that all teachers working with identified EL students have the proper certification.

These systems of review and support ensure that all District teachers possess valid credential in their subject areas.

**FINDING 07-17—
Title II, Part A—
Improving teacher
quality state grants:
expenditures not
supported
(30000) (50000)**

**CFDA #84.367—
U.S. Department of
Education, California
Department of
Education**

The district did not provide support for \$2,125,134 in expenditures charged to Title II, Part A - Improving Teacher Quality State Grants. The expenditures were charged to object code series 5000 – Services and Other Operating Expenditures. We requested supporting documentation in order to determine whether the expenditures were for allowable activities; however, the district did not respond to our request.

OMB Circular A-133 Compliance Supplement, Part 4 Department of Education, CFDA 84.367 Improving Teacher Quality, III.A.1.c. explains activities allowed for the use of Improving Teacher Quality Federal awards.

EDGAR Part 80, Subpart C, Sec. 80.20 (b) (6) states, in part:

Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Since the district did not provide the documentation, we were unable to determine whether Title II, Part A costs were allowable. As a result, \$2,125,134 in Title II funding is in question.

This is a repeat of prior year Findings 05-14, 04-24, 04-28, 03-75, and 03-78.

Recommendation

The district should ensure that it maintains adequate source documentation supporting Title II, Part A expenditures, and that it provides the documentation to the auditors when requested.

District's Response

Documentation has been provided to the SCO auditors. OUSD awaits analysis and response to documentation.

SCO Comment

We received a detailed listing of the \$2.21 million in Title II, Part A – Improving Teacher Quality program expenditures approximately three months¹ after we requested the information and after the end of fieldwork. Our preliminary review of the file disclosed numerous questionable items such as, unusual journal entries, journal entries without adequate description of the transactions, charges to open purchase orders to travel agencies, etc., that cannot be answered without a further audit of the supporting documentation. The district can work with CDE to resolve this finding. The finding remains unchanged.

¹ The three month lapse does not include the delay in receipt of the file. The size of the file prevented it from being delivered via e-mail on August 31, 2009 when the district sent it. However, we originally requested this information from the district on June 8, 2009.

**FINDING 07-18—
21st Century Program:
Unallowable
expenditures
(30000) (50000)**

**CFDA #84.287—
U.S. Department of
Education, California
Department of
Education**

Our review of 21st Century Program expenditures disclosed that the district expended funds on unallowable activities.

We selected a judgmental sample of five transactions which appeared to be unrelated to the objectives of the program and we identified exceptions in all five, as follows:

- Two of five transactions were for gift cards purchased from Albertson's in FY 2006-07. The invoices for the gift cards were for \$2,401 each, a total of \$4,802. In addition, the invoices were dated May 16, 2005, which was during FY 2004-05.
- One of five transactions was for the purchase of the equipment from The Guitar Center, totaling \$3,400, as follows:
 - One 700-watt 3-piece speaker
 - One 100-watt public address system
 - Two speaker stands
 - Two vocal microphones
 - Two microphone cables
 - Two turntable packages
 - One DJ kit with case
 - One Pro DJ turntable
- The remaining two transactions were for consulting services, totaling \$26,000, provided by Hatchuel, Tabernik & Associates. The services included writing a grant, designing a program, and planning a meeting. However, the purpose of the grant, program and meeting were not identified.

As a result of the exceptions noted, \$34,202 in 21st Century Program funds are in question.

OMB Circular A-133 Compliance Supplement, Part 4 – Department of Education (ED), CFDA 84.287 Twenty-First Century Community Learning Centers, III.A.2. states:

2. LEAs and Others

- a. IASA - A grantee under this program must provide the following allowable services: (1) implement the project described in its approved application, and (2) expend the funds in accordance with the terms of the approved budget (34 CFR sections 75.234, 80.20, and 80.22).

Grantees must provide four of the following 13 activities, but may also provide other services to the community (20 USC 8245):

- (1) Literacy education programs.
- (2) Senior citizen programs.
- (3) Children's day care services.

- (4) Integrated education, health, social services, recreational, or cultural programs.
 - (5) Summer and weekend school programs in conjunction with recreation programs.
 - (6) Nutrition and health programs.
 - (7) Expanded library service hours to serve community needs.
 - (8) Telecommunications and technology education programs for individuals of all ages.
 - (9) Parenting skills education programs.
 - (10) Support and training for child day-care providers.
 - (11) Employment counseling, training, and placement.
 - (12) Services for individuals who leave school before graduating from secondary school, regardless of the age of such individual.
 - (13) Services for individuals with disabilities.
- b. NCLB - Grant awards may be use to carry out a broad array of before - and after- school activities (including summer recess periods) that advance student academic achievement including (20 USC 7175):
- (1) Remedial education activities and academic enrichment learning programs, including providing additional assistance to students to allow the students to improve their academic achievement.
 - (2) Mathematics and science education activities.
 - (3) Arts and music education activities.
 - (4) Entrepreneurial education programs.
 - (5) Tutoring services (including those provided by senior citizen volunteers) and mentoring programs.
 - (6) Programs that provide after school activities for limited English proficient students that emphasize language skills and academic achievement.
 - (7) Recreational activities.
 - (8) Telecommunications and technology education programs.
 - (9) Expanded library service hours.
 - (10) Programs that promote parental involvement and family literacy.
 - (11) Programs that provide assistance to students who have been truant, suspended, or expelled to allow the students to improve their academic achievement.
 - (12) Drug and violence prevention programs, counseling programs, and character education programs.

OMB Circular A-87, Attachment A, Section C.1., states:

... To be allowable under Federal standards, cost must meet the following criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

Good internal controls require that the district expend Federal funds on allowable activities according to the restrictions set forth by the Federal agency, that expenditures are adequately supported, and that expenditures are charged to the correct fiscal year.

Recommendation

The district should ensure that 21st Century Program expenditures comply with OMB Circular A-133 and Circular A-87 requirements, that expenditures are adequately supported, and that expenditures are charged to the correct fiscal year.

District's Response

OUSD developed and implements an improved policy for invoice authorization for federally funded programs for approving invoices for payment by authorized staff. The authorization process includes the following processes and procedures:

- Authorized individuals for each federally funded program are identified at the beginning of each school year for the approval process. These authorized approvers are identified in the Integrated Financial and Accounting System (IFAS) accounting software approval processes and as authorized signers for specific supporting documents. These individuals are reported to the auditors during the audit review.
- The authorized individuals review each transaction and supporting documentation to ensure that the expenditure is compliant for a specific funding source.
- Accounts Payable staff does not pay invoices without authorized signer documentation.
- OUSD supports the process of ensuring that categorical program requirements are properly addressed through ongoing training and support for all staff that are directly involved in the process. This would include staff that generate requisitions, review and approve requisitions, and pay invoices.
- California Department of Education program leadership continues to be consulted on further clarification on the compliant use of funds for specific resources.

OUSD is committed to the process of continuous review and improvement of its systems of procurement and payment in order to ensure the compliant use of funds. These improved processes will ensure appropriate audit documentation for expenditures.

**FINDING 07-19—
National School Lunch
Program: Ineligible
students approved to
receive reduced-price
meals
(30000) (50000)**

**CFDA #10.555—
U.S. Department of
Agriculture, California
Department of
Education**

The district approved three students as being eligible to receive reduced-price meals who did not meet the income eligibility guidelines.

We reviewed files for a sample of 25 students who had applications for free- or reduced-price meals, and determined that for three of the students, the district should not have identified them as being eligible for reduced-price meal benefits based on reported household size and income.

We were unable to determine the number of meals claimed for the ineligible students because meals are reported at the site level not by individual students. As a result, we were unable to quantify the questioned costs related to the three ineligible students.

OMB Circular A-133, Compliance Supplement, Part 4—Department of Agriculture, III., CFDA 10.555, E.1.b.(1) states in part:

A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. SFAs, institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines.

Good internal controls require that applications be reviewed to ensure that only eligible participants receive program benefits.

This is a partial repeat of prior year Findings 06-31 and 03-77.

Recommendation

The district should ensure that students approved to receive reduced-price meals meet income eligibility guidelines.

District's Response

Nutrition Services meal application procedures were audited during the 2007-08 school year by the California Department of Education, Nutrition Services Division. The auditor noted that the current procedures were sufficient to ensure compliance and OUSD received many compliments on the system and the high accuracy rate.

In an effort further ensure compliance, Nutrition Services will be scanning meal applications starting with the 2009-10 school year. The scanning software will eliminate the errors that occur when applications are processed manually.

**FINDING 07-20—
National School
Lunch Program:
Reimbursement claim
discrepancies
(30000) (50000)**

**CFDA #10.555–
U.S. Department of
Agriculture, California
Department of
Education**

The district's National School Lunch Program claim for reimbursement for the month of February 2007 did not reconcile to supporting documentation. As a result, the district underclaimed meals by 2,819, which equates to \$2,351.

OMB Circular A-133, Compliance Supplement, 4—Department of Agriculture, CFDA 10.555 National School Lunch Program, III.L.3.b. states in part:

b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals (and milk under the SMP) served, a SFA, institution, or sponsor must submit claims for reimbursement to its administering agency (7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)). The claiming process is as follows:

(1) *Claiming – General Process*

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFAs, institution's, or sponsor's administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR sections 210.7(c), 210.8(c), and 225.9(d)).

(a) *School Nutrition Programs* – The following types of service may be authorized for schools participating in these programs: breakfast, lunch, supplement (if the school operates an afterschool care program), and milk (under the SMP). A school may be approved for the SMP only if it: (i) does not operate any other Federal Child Nutrition meal service programs; or (ii) operates the NSLP and/or SBP, but makes milk available to children in half-day pre-kindergarten or kindergarten programs who do not have access to the NSLP and SBP. All claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11).

Good internal controls require that program managers review reimbursement claim forms to ensure that meal counts are accurate prior to submitting them for reimbursement.

This is a repeat or partial repeat of prior year Findings 06-29, 06-30, 06-32, 05-17, 04-31, and 03-73.

Recommendation

The district should ensure that program officials review National School Lunch Program reimbursement claim forms before they are submitted to CDE to ensure meal counts are accurate.

District's Response

Nutrition Services has put the following procedures in place to eliminate discrepancies and ensure compliance with meal program:

WFSR Monthly Review

Quarterly Review is to be completed by assigned Field Supervisor to ensure sites are following Collection Procedures.

1. At the end of each claim month (August-June) each Field Supervisor will **randomly** select four (4) sites completing WFSR's.
2. Each site will turn in to their Field Supervisor the following materials
 - a) Check Off List(s)
 - b) Meal Count Tally Sheets
 - c) Customer List(s)
 - d) WFSR's
 - e) Daily Application List(s)
3. For each site, the Field Supervisor will complete the following steps for two (2) weeks of the month:
 - a) Review Check Off List to make sure it is completed properly i.e. check mark used to identify student received a meal, NP for charged meals, circle for pre-payments, and no unapproved alterations to check off list.
 - b) Review Check Off List to ensure student status changed appropriately per Customer Lists & Daily Application Lists
 - c) Complete a new Meal Count Tally Sheet using steps shown on page 76
 - d) Compare new Meal Count Tally Sheet to the sheet submitted by the site
 - e) Adjust WFSR as needed to ensure it reflects supporting documents (Check Off List and Meal County Tally Sheet)
 - f) Submit changes to Accountant III or designee
 - g) Submit WFSR Monthly Review summary report to Director by the last working day of the 2nd month. For example if reviewing September WFSR, summary report must be turned in by October 31st.
4. If problems are detected during review, the Field Supervisor will take the following steps:
 - a) Review entire month
 - b) Return documents to site
 - c) Conduct 1:1 training with appropriate staff within 1 week of completion of Monthly Review

- d) Document training with appropriate training materials & sign in sheet
 - e) Site will be selected for review again within three (3) months
 - f) If same issues persist, the Field Supervisor will report to Director or designee and corrective action plan will be developed and implemented
5. If no problems are detected during review, the Field Supervisor will take the following steps:
- a) Return documents to site
 - b) Provide positive feedback to appropriate staff

Additionally, Nutrition Services has hired an Accountant III with extensive knowledge and experience working with NSLP accounting procedures. Current policies and procedures will be reviewed and modified as needed to increase compliance and ensure proper accounting and therefore revenue.

Finally, Nutrition Services continues to implement computerized POS (point of sale) at school sites eliminating manual paperwork which causes issues as described in this audit finding. During the 2008-09 school year 10 sites were added to program with an additional 20 slated for 2009-10 implementation.

SECTION IV—STATE AWARD FINDINGS

**FINDING 07-21—
Attendance improperly
reported by district
(10000) (30000)**

We tested attendance at 11 school sites and noted that attendance reported on the district’s monthly attendance report was not supported by teacher scantrons and other documentation, such as absence notes. In reviewing the school site attendance records, we noted that:

- For 8 of the 11 school sites tested, the district did not accurately report attendance in its monthly reports, due to teacher reporting errors or attendance reporting system errors as follows:

<u>School Site</u>	<u>Overstated Attendance Days</u>
Allendale	2
Lakeview	2
Parker	106
Sherman	173
Claremont	13
Cole	(1)
Oakland High	1
Total overstated attendance days	<u>296</u>

- For 9 of the 11 school sites tested, the district reported absent students as present, as indicated by student absence notes, and included these days of absences in the calculation of apportionment attendance as follows:

<u>School Site</u>	<u>Overstated Attendance Days</u>
Allendale	2
Lakeview	19
Sherman	3
Think College Now	6
Claremont	1
Cole	40
Havenscourt	4
Leadership	4
Oakland High	1
Total improperly reported absences	<u>80</u>

Attendance was overstated by a total of 376 days. This equates to 2.81 ADA at P-2 and \$15,563 in inappropriately received state funding.

Education Code section 46010.3 states:

Notwithstanding subdivision (a) of Section 46010 or any other provision of law, for purposes of calculating days of attendance in order to compute any apportionment of state funding under this code, a pupil enrolled in a regular day class, including opportunity classes and

classes conducted in county community schools, for the minimum day that is applicable to that pupil is deemed to be present for the entire schoolday, unless he or she is absent for the entire schoolday. This section does not apply to any pupil whose attendance is required under this code, or under Title 5 of the California Code of Regulations, to be recorded by clock hours.

Good internal controls require school sites to properly maintain attendance records that accurately support attendance claimed by the district.

If the school sites do not take necessary care in recording attendance and in ensuring that the reported attendance is properly supported, errors may go undetected and the attendance reported by the district will be incorrect.

This is a repeat of prior year finding 06-37, 05-22, 04-32, and 03-84.

Recommendation

The district should:

- File an amended P-2 and Annual Report of Attendance;
- Repay the inappropriately received funding of \$15,563 to the State;
- Strengthen internal controls at school sites to ensure that attendance staff is properly recording attendance; and
- Compare attendance documentation, such as absence notes, with monthly attendance reports prior to submitting the sites' attendance to the district.

District's Response

OUSD continues to strengthen its internal controls at school sites to ensure that all relevant attendance documents are generated, reviewed, approved and maintained in an organized manner. All attendance documents and records are reconciled prior to being reported to CDE. Technical Services Department Staff provide continuous training classes and materials for school attendance staff.

OUSD has expanded training of school site staff to ensure proper attendance recording and reconciliation. Financial Services Staff continue to monitor attendance accounting throughout the year to ensure staff at school sites are correctly reporting attendance and enrollment.

OUSD formed the Data and Student Quality Committee to identify and address issues involving attendance accounting. The committee meets on a regular basis.

In 2009, OUSD certified its Attendance Software System and Attendance Process with CDE.

OUSD continues to improve its attendance procedures as schools implement the use of the AERIES Browser Interface (ABI) system. This online system enables teachers to input attendance data directly in AERIES. This system also improves the timeliness and accuracy of attendance monitoring.

**FINDING 07-22—
Attendance not taken
(10000) (30000)**

In reviewing the school site attendance records, we noted several instances in which students whose attendance was claimed for apportionment were marked absent for four or more periods. We judgmentally selected students who were marked present in only one class or two non-consecutive classes for testing. We then reviewed the scantron for the teacher reporting the student as present to determine if the teacher had taken roll. We determined that in several cases that the teacher did not take roll.

For the three junior high school and two high school sites tested, we tested 265 total cases in which the student had four (4) or more absences on the same day, and determined that in 66 of these instances the teacher did not take roll.

The results are shown in the table below:

<u>School Site</u>	<u>Students with 4 or more absences</u>	<u>Teacher did not take roll</u>
Claremont Middle	3	3
Cole Middle	58	22
Havenscourt Middle	2	0
Leadership High	15	0
Oakland High	<u>187</u>	<u>41</u>
Total	<u>265</u>	<u>66</u>

Attendance was overstated a total of 66 days. This equates to 0.49 ADA at P-2 amounting to \$2,714 in state funding.

In addition, we noted that 23 of 58 scantrons reviewed for Claremont Middle School were not signed by the teacher. Thirty-three of the remaining 35 scantrons were signed and dated four to five months after the week represented by the scantron.

We also noted that one student was enrolled in two first-period classes at Oakland High at the same time, from February 21, 2007, until the end of the school year. The student was not dropped from the initial first-period class when the student was enrolled into the subsequent first-period class.

Title 5, California Code of Regulations (CCR), section 401(c), Forms and Procedures for Recording Attendance, states:

In all high schools, except those listed in (d) of this section, each teacher shall be required to submit to the principal, at least once each school day, a report of attendance for each period of the day in which he conducts classes, listing the names of all pupils absent in any period.

Education Code section 44809(b) states:

There shall be recorded in each state school register the absence and attendance of each pupil enrolled in the classes taught by the teacher keeping the register or on whose behalf the register is kept and any additional information required by the State Department of Education.

Education Code section 46010.3 states:

Notwithstanding subdivision (a) of Section 46010 or any other provision of law, for purposes of calculating days of attendance in order to compute any apportionment of state funding under this code, a pupil enrolled in a regular day class, including opportunity classes and classes conducted in county community schools, for the minimum day that is applicable to that pupil is deemed to be present for the entire schoolday, unless he or she is absent for the entire schoolday. This section does not apply to any pupil whose attendance is required under this code, or under Title 5 of the California Code of Regulations, to be recorded by clock hours.

Good internal controls require school sites to properly maintain attendance records that accurately support attendance claimed by the district. scantrons should also be signed and dated by teachers in a timely manner to verify the accuracy and completeness of the attendance reported on those scantrons.

Recommendation

The district should:

- File an amended P-2 and Annual Report of Attendance;
- Repay the inappropriately received funding of \$2,714 to the State;
- Strengthen internal controls at school sites to ensure that attendance staff is properly recording attendance for every class; and
- Strengthen internal controls at school sites to ensure that teachers are signing their scantrons in a timely manner.

District's Response

OUSD continues to strengthen its internal controls at school sites to ensure that all relevant attendance documents are generated, reviewed, approved and maintained in an organized manner. All attendance documents and records are reconciled prior to being reported to CDE. Technical Services Department Staff provide continuous training classes and materials for school attendance staff.

OUSD has expanded training of school site staff to ensure proper attendance recording and reconciliation. Financial Services Staff continue to monitor attendance accounting throughout the year to ensure staff at school sites are correctly reporting attendance and enrollment.

OUSD formed the Data and Student Quality Committee to identify and address issues involving attendance accounting. The committee meets on a regular basis.

In 2009, OUSD certified its Attendance Software System and Attendance Process with CDE.

OUSD continues to improve its attendance procedures as schools implement the use of the AERIES Browser Interface (ABI) system. This online system enables teachers to input attendance data directly in AERIES. This system also improves the timeliness and accuracy of attendance monitoring.

When audit is finalized and reported OUSD will submit amended P2 report.

**FINDING 07-23—
Attendance records not
retained
(10000) (30000)**

In reviewing the school site attendance records at 11 school sites, we noted that 2 of the school sites (Lincoln and Parker) did not provide absence note documentation; thus, we were unable to fully perform the audit procedures in the K-12 Audit Guide – Title 5, CCR, section 19817.1(c).

The attendance clerk at Lincoln Elementary provided a spreadsheet of absences generated from absence notes received and phone conversations with parents/guardians. However, the original documents were not retained.

California Code of Regulations, Title 5, Chapter 16, Article 2 Period of Retention states, in part:

Section 16025 Class 3 - Disposable Records.

All records not classified as Class 1 - Permanent or Class 2 - Optional shall be classified as Class 3 - Disposable, including but not limited to detail records relating to:

- (a) Records Basic to Audit, including those relating to attendance, average daily attendance. . . .

Section 16026 Retention Period

A Class 3 - Disposable record shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code 41020 or of any other legally required audit. . . .

Education Code section 35250 states, in part:

The governing board of every school district shall:

- (d) Make or maintain such other records or reports as are required by law.

Education Code section 35254 states, in part:

The governing board of any school district may make photographic, microfilm, or electronic copies of any records of the district. The original of any records of which a photographic, microfilm, or electronic copy has been made may be destroyed. . . except that no original record that is basic to any required audit shall be destroyed prior to the second July 1st succeeding the completion of the audit.

We were unable to fully perform the audit procedures in the K-12 Audit Guide - Title 5, CCR, section 19817.1(c) that requires the auditor to:

Select a sample of absences and compare to documentation supporting Average Daily Attendance reported to the California Department of Education to verify that absences were not included in Average Daily Attendance. . . .

Since the district did not provide all of the absence notes required for our testing of the sample school sites, we will include a scope limitation in the report on State Compliance for Attendance Testing.

Recommendation

The district should:

- Implement a policy to retain all attendance documentation for at least three fiscal years as required; and
- Verify periodically that sites have retained all attendance documentation.

District's Response

The district has expanded and improved attendance procedure trainings provided to school staff. The trainings address proper and comprehensive implementation of student attendance procedures as well as the completion and storage of mandated attendance documentation. School staff is instructed that all attendance documents must be properly archived for a minimum of three years.

Central administration staff will periodically review school documents to ensure correct procedures are being implemented.

**FINDING 07-24—
Non-compliance with
teachers’ credential
requirements
(30000) (40000) (71000)**

During our review of teacher credentials, we noted that some teachers were teaching without a valid teaching credential and other teachers were teaching classes that were not consistent with the authorization of their credentials. We reviewed 51 teacher credentials and identified two teachers who did not possess valid credentials during the entire school year, and 14 teachers who were teaching subjects they were not credentialed to teach.

Two Teachers Without Valid Credentials

- Our review disclosed that one substitute, with only an emergency 30-Day Substitute Teaching Permit, taught a class at Claremont Middle School for the entire 180-day school year. An emergency 30-day substitute teaching permit authorizes the holder to serve as a substitute in any classroom, kindergarten and grades K-12, not more than 30 days for any one teacher during the 180-day school year. Therefore, the substitute did not have a valid credential to teach the class for 150 days of the school year.
- Also, a district employee that did not have a valid credential until May 1, 2007 taught a class at Oakland High School for the entire 180-day school year; therefore, for 150 days of the school year the teacher did not possess a valid teaching credential.

Following the guidelines prescribed by Education Code, the penalty associated with the two teachers without credentials amounts to:

	(1)	(2)	(3)	(4)	
	Total Teachers × Total Days ¹	Total Days Services Rendered without Credential	Ratio of Uncredentialed Days to Total Days ² (Col. (2) ÷ (1))	Total Revenue Limit Entitlement ³	Penalty
1	356,067	150	0.0004	\$ 207,484,545	\$ 82,994
2	356,067	150	0.0004	207,484,545	82,994
Total penalty amount					<u>\$ 165,988</u>

¹ Based on district’s reported teachers in administrative employees to teachers ratio; [1,978.15 (reported teacher FTE) × 180 (total number of school days) = 356,067].

² Rounded to four decimal places [Education code section 45037(b)(3)].

³ Based on California Department of Education report, School District Revenue Limit, 2006-07 P-2, deficit total revenue limit entitlement for Oakland Unified.

Teacher Misassignments

Our review disclosed 14 teacher misassignments, with 4 teachers teaching subjects not consistent with their credential, and 10 teachers who were not authorized to instruct limited-English-proficient pupils teaching classes with 20% or more English Language learners.

School	No. of Teacher Missassignments	
	Teaching Subjects Not Consistent with Credentials	Teaching EL Classes without BCLAD Credential
Allendale	—	1
Claremont	1	—
Havenscourt	1	—
Leadership	—	1
Lakeview	—	1
Oakland High School	2	5
Parker	—	1
Think College Now	—	1

There are no penalties for teacher misassignments. Teacher misassignments are reported on the school sites’ School Accountability Report Card. Resources may not be effectively used when teaching staff members are not employed in positions for which they are best suited or are not properly credentialed to teach. (See Finding 07-38)

Title 5, CCR, section 80025(a) and (b) state:

- (a) Requirements for the issuance and reissuance of an Emergency 30-Day Substitute Teaching Permit include all of the following:
 - (1) Possession of a baccalaureate or higher degree from a regionally accredited college or university;
 - (2) Passage of the California Basic Educational Skills Test (CBEST);
 - (3) Submission to the Commission on Teacher Credentialing of a completed Application for Credential Authorizing Public School Service (form 41-4, rev 4-94); the fee(s) as specified in Section 80487; and, unless clearance is already on file with the Commission, personal identification on duplicate fingerprint cards and the completed Application for Character and Identification Clearance (form41-CIC, rev 11-93).
- (b) Authorization: The Emergency 30-day Substitute Teaching permit authorizes the holder to serve as a substitute in any classroom: preschool, kindergarten and grades 1-12, inclusive; or in classes organized primarily for adults within each county in which the permit is registered provided the employing agency has a completed Statement of Need on file for the school year. However, the holder shall not serve as a substitute for more than 30 days for any one teacher during the school year.

Education Code section 44006 “Certificated Person” states:

The term ‘certification person’ refers to a person who holds one or more documents such as a certificate, a credential, or a life diploma, which singly or in combination license the holder to engage in the school service designated in the document or documents.

Education Code section 44007 “Certification Document” states:

The term ‘certification document’ as used in this code includes only certificates, credentials, and life diplomas.

Education Code section 45037(a) states, in part, that:

. . . for any fiscal year. . . in which a person renders service as a teacher in kindergarten or any of grades 1 to 12, inclusive, who does not have a valid certification document, the school district or county office of education in which the person is employed shall be assessed a penalty. . . .

Education Code section 45037(b) states, in part:

- (1) For each person who rendered service in the employment of the district or county office of education as a teacher in kindergarten or any of grades 1 to 12, inclusive, during the fiscal year, add the total number of schooldays on which the person rendered any amount of the service.
- (2) For each person who rendered service in the employment of the district or county office of education as a teacher in kindergarten or any of grades 1 to 12, inclusive, during the fiscal year, for a period of service during which the person did not have a valid certification document, add the number of schooldays on which the person rendered any amount of the service without a valid certification document.
- (3) Divide the number determined in paragraph (2) by the number determined in paragraph (1) and carry the result to four decimal places.
- (4) Multiply a school district's revenue limit entitlement for the fiscal year, calculated pursuant to Section 42238, or its funding amount calculated pursuant to Article 4 (commencing with Section 42280) of Chapter 7 of Part 24, as applicable, or a county office of education's funding for the fiscal year, for the program in which the noncertificated person rendered service by the number determined in paragraph (3).

California Department of Education Advisory, dated July 18, 2003, states in part:

A valid certification document does not include adult education credentials, services credentials without an underlying basic elementary or secondary credential, child development or children center permits, emergency 30-day substitute teaching permits wherein the teacher has inappropriately taught for more than 30 days during the valid period of the permit in any one classroom, or any certification document that is expired or revoked.

The above findings are a repeat of the prior year Finding 06-38.

Recommendation

The district should:

- Pay the State the penalty amount of \$165,988 for the non-credentialed teachers;
- Review the credential qualifications of its staff and ensure current and valid credentials are maintained;

- Ensure that instructional staff members are assigned to teach in subject areas authorized by their credentials and that staff providing instruction to English learners are qualified and authorized to do so; and
- Establish a system for the periodic review of teacher credential qualifications and assignments.

District's Response

The following has been done to ensure compliance with credentialing and HQT:

The district continues to implement preventive systems of tracking highly qualified teachers within school site assignments. For Fiscal Year 2008-2009 an accounting software IFAS tracking module was added to the ARIES master schedule tracking system to ensure NCLB compliance at each school site. The process of maintaining NCLB teacher compliance includes the following:

- At the beginning of each school year, the tracking module is run weekly for the first four to six weeks to ensure teachers with the proper credentials are assigned to appropriate classes.
- Principals are notified weekly of any changes that must be made with teacher assignments to ensure highly qualified teacher compliance in all subject areas.
- In the areas of special education, teachers are supported in completing all highly qualified teacher requirements.
- All teachers are also provided with extensive services to help them pass their CSET exams including participation in CSET preparation courses and individual plan support.
- District subsidizes the cost of the CTEL exam for teachers (up to \$1,000).
- Every month the Executive Officer of Human Resources sends to the Executive Staff a report of teachers who will have credentials expiring. Teachers can be terminated if they do not show evidence within a specific timeline that their credential has been renewed with the essential highly qualified teacher requirements in the subject area.
- Working with the support of the Oakland Education Association (teachers' union) to stress the importance of all teachers having required EL authorization.
- Working with site administrators to ensure that all teachers working with identified EL students have the proper certification.

These systems of review and support ensure that all District teachers possess valid credential in their subject areas.

**FINDING 07-25—
Kindergarten
continuation forms
not provided
(10000) (40000)**

The district did not provide an agreement form for all pupils whose attendance was included in the average daily attendance calculation after the pupils had completed one school year in kindergarten. We obtained a list of kindergarten students from 2005-06 and 2006-07 and identified 179 students who appeared to be kindergarten continuation students because their names were on both lists. We identified that 25 of the 179 kindergarten continuation students attended the six school sites in our sample and determined that:

- The district had completed a compliant agreement form for one of the 25 sample students.
- Nine of the students were special education students and had individual education plans that overrode the requirement for a parental agreement form.
- For the 12 kindergarten continuation students who did not have a signed agreement form or an individual education plan, we disallowed all attendance claimed that exceeded 180 days of attendance.
 - Five of these students were identified at Parker Elementary, one of the six sample schools. The five students had continued kindergarten in the 2006-07 school year but an agreement form was not provided. The Parker Elementary school site is now closed and the district did not retain or was unable to provide the kindergarten agreement forms.
 - Seven additional kindergarten continuation students were identified at the five remaining sample school sites and no agreement form was provided for those students.

The disallowed days are as follows:

School Site	Days in Excess of 180
Bella Vista	56
Lakeview	46
Lincoln	34
Parker	134
Parker	114
Parker	37
Parker	103
Parker	121
Sherman	106
Think College Now	170
Think College Now	161
Think College Now	169
Total Days exceeding 180	1,251
Divided by days in P-2	÷ 134
= ADA	9.34
Multiply by Base Revenue Limit	× \$ 5,538.37
= Disallowed Apportionment	\$ 51,728.38

- The three remaining students did not attend more than 180 days in both the 2005-06 and 2006-07 school years, so no attendance was disallowed.

Education Code section 46300(g) states:

In computing the average daily attendance of a school district, there shall be included the attendance of pupils in kindergarten after they have completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Section 48011, approved in form and content by the State Department of Education and signed by the pupil's parent or guardian, that the pupil may continue in kindergarten for not more than an additional school year.

Education Code section 48011 states in part:

A child who, consistent with Section 48000, has been admitted to the kindergarten maintained by a private or a public school in California or any other state, and who has completed one school year therein, shall be admitted to the first grade of an elementary school unless the parent or guardian of the child and the school district agree that the child may continue in kindergarten for not more than an additional school year.

This is a repeat of prior year Finding 06-39, 05-23, 04-35, and 03-91.

Recommendation

The district should:

- Submit a revised report of attendance at P-2 for the disallowed ADA;
- Repay the State the \$51,728 received for the ineligible kindergarten continuation students;
- Implement a district-wide process to identify and track students who continue in kindergarten after one year;
- Retain a copy of the agreement form in a central location as well as in the student's cumulative file;
- Determine in a timely manner that an agreement form that complies with all state requirements has been completed; and
- Contact the California Department of Education for additional resources and assistance in implementing corrective measures, as this has been an ongoing problem for the district in each of the four prior years.

District's Response

OUSD will review the current Kindergarten Continuation form and modify as needed to ensure it fulfills all state requirements.

OUSD will implement a new procedure during the fall semester of the 2009-2010 school year:

- Run an ARIES (enrollment and attendance system) report indicating all Kindergarten students listed as Kindergarten students in both the current and previous year
- Appropriate schools will then be notified to review the list of students and their supporting documentation
- Schools will be directed to complete all necessary continuation documents
- Documents will be placed in students' Cum Folders and copies sent to central office administrator

When audit is finalized and reported OUSD will submit amended P2 report.

**FINDING 07-26—
Independent study
noncompliance with
program
requirements
(10000) (30000)
(40000)**

Our review of independent study ADA disclosed several deficiencies. We have summarized these deficiencies in accordance with the audit procedure to which they apply, as follows:

Independent Study Agreements did not contain all required elements

Title 5, California Code of Regulations (CCR) section 19819, Procedure (c) (7) (G) requires the auditor verify that every written agreement contain a statement of the number of course credits, or for the elementary grades, other measures of academic accomplishment appropriate to the agreement to be earned by the pupil upon completion of all the elements stipulated by Education Code section 51747 (c) (6).

The district provided to us independent study agreements for students at the five elementary schools tested. For all five elementary schools tested, we found that none of these agreements contained a statement of the number of course credits, or for the elementary grades, other measures of academic accomplishment appropriate to the agreement to be earned by the pupil upon completion. Based on the 100% error rate, we concluded that the independent study agreements used by all elementary schools was non-compliant and disallowed all elementary school independent study attendance.

The attendance for grade 4–elementary, grade 5–elementary, and grade 6–middle is combined in one reporting line item on the P-2 and Annual Reports of Attendance. Grade 6 independent study attendance is disallowed as well as that for grades K-5 because the district did not identify the independent study attendance claimed for grade 6 students. If the district can identify the amount of attendance claimed for grade 6 independent study students, we will adjust the disallowance as appropriate.

All attendance claimed, or 55.39 ADA, for elementary independent study (grades K-6) amounting to \$306,770, is disallowed.

Title 5, CCR section 19819, Procedure (c) (7) (A) requires the auditor verify that every written agreement contain the manner, time, frequency and place for submitting a pupil’s assignments and reporting his or her progress as required by Education Code section 51747 (c) (1).

We noted that, for the four students tested at Met West High School, the independent agreements and eight assignment work record forms did not contain the time for submitting assignments. The 129 days attendance claimed for these students is disallowed. This amounts to .96 ADA, or \$5,317 in state apportionment.

Independent Study Agreements not properly completed

Title 5, California Code of Regulations (CCR) section 19819, Procedure (c) (7) (G) requires the auditor verify that every written agreement contain a statement of the number of course credits, or for the elementary grades, other measures of academic accomplishment appropriate to the

agreement to be earned by the pupil upon completion of all the elements required by Education Code section 51747 (c) (6).

We reviewed the middle school master agreement and determined that the form contained a space for subject and course value to be completed. However, the form for one grade 6 independent study student at Claremont Middle School had not been completed. The attendance for this student (.25 ADA) had already been disallowed because of other deficiencies noted in the agreement form.

Title 5, California Code of Regulations (CCR) section 19819, Procedure (c) (7) (E) requires the auditor verify that every written agreement contain a statement regarding the maximum length of time allowed between the assignment and the completion of a pupil's assigned work, and the number of assignments a pupil may miss before there must be an evaluation as required by Education Code section 51747 (c) (4).

The elementary school master agreements for five of 16 students were not properly completed with the maximum length of time allowed between assignments and/or the number of assignments a student is allowed to miss. In addition, four of the five students had two incomplete agreements, one for each semester, so all attendance for these four students is disallowed.

Therefore, the attendance is disallowed for these students for the entire school year. At P-2, 617 days, or 4.60 ADA, amounting to \$25,477 is disallowed. At Annual, 753 days, or 4.18 ADA, amounting to \$23,150 is disallowed.

Title 5, California Code of Regulations (CCR) section 19819, Procedure (c) (7) (F) requires the auditor verify that every written agreement contain the duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement, with no agreement being longer than one semester, or one-half year for a school on a year-round calendar as stipulated by Education Code section 51747 (c) (5).

One Sojourner Truth teacher did not complete the ending date on the agreement form for four students. The attendance for these four students is also disallowed because the agreements/contracts did not include the maximum length of time allowed to lapse between the assignment date and the due date and/or the number of assignments the students was allowed to miss. The attendance for these four students (3.90 ADA) was previously disallowed in procedure (c) (7) (E).

Independent Study Agreements or Work Sample Not Provided

Title 5, CCR section 19819, Procedure (c) (5) requires the auditor verify that a written agreement exists for each pupil selected for testing, as stipulated by Title 5, CCR section 11703 (a).

The district did not provide a contract for one independent study student at Sherman Elementary. Three days of attendance is disallowed for a missing contract and work samples as shown at procedure (c) (9). The 3 days equate to 0.02 ADA, or \$111.

Title 5, CCR section 19819, Procedure (c) (9) requires the auditor to trace each pupil's attendance from the attendance records to the teacher's register, record of the pupil's work completed, and the corresponding work assignment record, as stipulated by Title 5, CCR section 11703 (b).

The district did not provide a contract or work sample for one of the 23 sample students. Three days of attendance is disallowed. For another independent study student, the district did not retain work samples. Also, the assignment work record form had not been completed by the teacher. Therefore, there was no evaluation of the work, initialed and dated by the teacher, to support the attendance awarded. The 20 days of attendance claimed for this student is also disallowed. The 23 disallowed days amount to 0.17 ADA, or \$942.

Other Non-Compliance Issues

Title 5, CCR section 19819, Procedure (c) (8) requires the auditor to verify that no days of attendance were reported for dates prior to the signing of the agreement by all parties, as stipulated by Title 5, CCR section, 11702 (a).

We noted that one contract for eight days of attendance and another contract for four days of attendance were both signed after the district claimed attendance for the less than full-time independent study student. Therefore, 12 days of attendance, or 0.09 ADA, is disallowed, amounting to \$498.

Title 5, CCR section 19819, Procedure (b) (2) requires the auditor to determine the total number of days of attendance reported for each sampled school that resulted from attendance by pupils while engaged in independent study. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the local education agency for the P-2 and Annual attendance reports.

We noted that the independent study attendance the district reported for grades 9-12 was not supported by monthly attendance summary reports. The Aeries report, Monthly Attendance Summary Totals, indicated 258.24 ADA for independent study for grades 9-12. However, the district reported 258.48 ADA for independent study for grades 9-12 on the summary report Period Annual 2006-2007. As a result, grade 9-12 attendance was overstated by 0.24 on the Annual Report of School District Attendance. This amounts to an \$1,329 apportionment at Annual. However, independent study is funded on ADA reported at P-2, so the district did not receive excess apportionment.

Title 5, CCR section 19819, Procedure (b) (5) requires the auditor to select a representative sample of teachers and verify the mathematical accuracy of the teachers' attendance records of pupil attendance. Trace the monthly totals from the monthly report to the attendance records.

We traced the attendance credited to students, as reported on the assignment work record form, to the district's monthly attendance reports. We noted that the attendance for two students was understated by one day for each student, and that another student's attendance was overstated by one day, for a net understatement of one day. However, the overstated day of attendance was disallowed at Procedure (c) (9) because the contract was not signed prior to the commencement of the independent study period. Therefore, the remaining two students' attendance was understated by a total of 2 days, or .01 ADA, which amounts to \$55.

Title 5, CCR section 19819, Procedure (a) (2) requires the auditor to select a representative sample of pupils for whom average daily attendance generated through independent study was claimed, including pupils on intermittent or "short term" independent study if the local education agency offered that option, and confirm that every pupil on the sample is identified in the written records of the district by grade level, by program placement and by the school in which he or she is enrolled.

We noted that the district's attendance records did not correctly identify all students by program placement. We examined the less-than-full-time (short term) independent study records at six regular school sites and noted that four of the six sites had misclassified regular students as independent study students. The district claimed no attendance for the students in the regular program; however, it did claim attendance for the regular students in the independent study program. Attendance was not double-counted for the students; therefore, there is no need to disallow the attendance claimed for the misclassified students. Independent study attendance and regular attendance is reported on the same line on the P-2 and Annual Report of Attendance and there is no difference in the amount of funding received per student. Therefore, there is no need to reclassify the attendance claimed for the students.

We randomly selected a sample of 23 students who were identified as independent study students in the district's Aeries attendance system. The student names appeared on the district's Program 'I' monthly attendance reports. We were able to evaluate the contracts and work samples for only 16 sample students because the district was unable to provide independent study agreements or work samples for seven students. Of the seven independent study students, we noted that:

- Three students were not disenrolled from the independent study program (Program I) after the contract period was completed;
- Two students did not complete independent study assignments and did not receive any independent study attendance;
- Two students were misclassified as independent study students.

Observations regarding student enrollment history forms

The classes listed on the students’ enrollment history forms did not agree to the classes listed on the contracts/agreements for five of five students sampled. However, the independent study students did not appear to be enrolled in any program other than independent study and were not found to have earned more than one day of attendance for any calendar day. Therefore, there was no effect or disallowance.

We compared the classes listed on the enrollment history forms with the classes listed on five sample students’ independent study agreements and noted the following:

- Each enrollment history report indicated the student was enrolled in five classes and an advisory class.
- Classes that appeared on the contracts/agreements did not appear on the enrollment history reports. These classes may have been completed and dropped off the enrollment history report as one of the five classes.
- For all five students, the contracts listed classes that did not appear on the enrollment history report.
- The class history report for two students listed classes that did not appear on the contract agreement form. These two classes were geometry and independent study. Both Sojourner Truth and Met West offered geometry and independent study.

The class enrollment history forms did not indicate that the students were enrolled in any program other than independent study.

Summary Schedule of Disallowed Apportionment

<u>Noncompliance</u>	<u>Days</u>	or	<u>ADA</u>	<u>Apportionment Disallowed</u>
Procedure (c) (7) (G)				
Agreement not properly completed:				
- Course credit and/or academic achievement			55.39	\$ 306,770
- Included in disallowances below	34		(0.25)	(1,385)
Net disallowance			<u>55.14</u>	<u>305,385</u>
Procedure (c) (7) (E)				
Agreement not properly completed:				
- Length of time and missed assignments	617		4.60	25,477
Procedure (c) (7) (A)	129		.96	5,317
Agreement did not contain all required elements				
Procedure (c) (5) and (c) (9)				
Agreements and work samples not provided	23		0.17	942
Procedure (c) (8)				
Agreement signed after attendance claimed	12		0.09	498
Procedure (b) (5)				
Clerical errors recording attendance	<u>(2)</u>		<u>(0.01)</u>	<u>(55)</u>
Subtotal	<u>779</u>		<u>5.81</u>	<u>32,179</u>
Total			<u>60.95</u>	<u>\$ 337,564</u>

The net disallowance attributed to the deficient Elementary School Master agreements amounts to 55.17 ADA, or \$305,385 in state funding. The additional exceptions noted in the testing of individual contracts amounts to 779 days, or 5.81 ADA disallowed, which equates to \$32,179 in state funding. The combined total ADA disallowed for independent study is 60.95 ADA, or \$337,564.

At procedure (b) (2), we also noted that the district over-reported, by 0.24 ADA, the attendance for grades 9-12 at Annual because it did not properly summarize the Monthly Attendance Summary Totals from the Aeries attendance reporting system. Independent study is funded on P-2 and there was no effect on P-2 reporting. However, the effect of this overstatement on the Annual reporting amounts to \$1,329.

Title 5, CCR, section 11702(a), states:

Each signature required for an independent study agreement shall be dated. An agreement is not in effect until it is complete as to all terms, signed and dated.

Title 5, CCR, section 11703, states in part:

- (a) Maintaining records to meet audit requirements is the responsibility of the local district or county superintendent's office. These records may be on site(s).
- (b) Records shall include but not be limited to. . . .
- (3) A file of all agreements, including representative samples of each pupil's or adult education student's work products bearing signed or initialed and dated notations by the supervising teacher indicating that he or she has personally evaluated the work, or that he or she has personally reviewed the evaluations made by another certificated teacher.

Education Code section 51747 states:

A school district or county office of education shall not be eligible to receive apportionments for independent study by pupils, regardless of age, unless it has adopted written policies, and has implemented those policies, pursuant to rules and regulations adopted by the Superintendent of Public Instruction, that include, but are not limited to, all of the following:

- (a) The maximum length of time, by grade level and type of program, that may elapse between the time an independent study assignment is made and the date by which the pupil must complete the assigned work.
- (b) The number of missed assignments that will be allowed before an evaluation is conducted to determine whether it is in the best interests of the pupil to remain in independent study, or whether he or she should return to the regular school program. A written record of the findings of any evaluation made pursuant to this subdivision shall be treated as a mandatory interim pupil record. The record shall be maintained for a period of three years from the

date of the evaluation and, if the pupil transfers to another California public school, the record shall be forwarded to that school.

- (c) A requirement that a current written agreement for each independent study pupil shall be maintained on file including, but not limited to, all of the following:
- (1) The manner, time, frequency, and place for submitting a pupil's assignments and for reporting his or her progress.
 - (2) The objectives and methods of study for the pupil's work, and the methods utilized to evaluate that work.
 - (3) The specific resources, including materials and personnel, that will be made available to the pupil.
 - (4) A statement of the policies adopted pursuant to subdivisions (a) and (b) regarding the maximum length of time allowed between the assignment and the completion of a pupil's assigned work, and the number of missed assignments allowed prior to an evaluation of whether or not the pupil should be allowed to continue in independent study.
 - (5) The duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement. No independent study agreement shall be valid for any period longer than one semester, or one-half year for a school on a year-round calendar.
 - (6) A statement of the number of course credits or, for the elementary grades, other measures of academic accomplishment appropriate to the agreement, to be earned by the pupil upon completion.
 - (7) The inclusion of a statement in each independent study agreement that independent study is an optional educational alternative in which no pupil may be required to participate. In the case of a pupil who is referred or assigned to any school, class, or program pursuant to Section 48915 or 48917, the agreement also shall include the statement that instruction may be provided to the pupil through independent study only if the pupil is offered the alternative of classroom instruction.
 - (8) Each written agreement shall be signed, prior to the commencement of independent study, by the pupil, the pupil's parent, legal guardian, or caregiver, if the pupil is less than 18 years of age, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil. For purposes of this paragraph "caregiver" means a person who has met the requirements of Part 1.5 (commencing with Section 6550) of the Family Code.

Education Code section 51747.5 (a) states:

The independent study by each pupil or student shall be coordinated, evaluated, and, notwithstanding subdivision (a) of Section 46300, shall be under the general supervision of an employee of the school district

or county office of education who possesses a valid certification document pursuant to Section 44865 or an emergency credential pursuant to Section 44300, registered as required by law.

Education Code section 51747.5 (b) states:

School districts and county offices of education may claim apportionment credit for independent study only for the time value of pupil or student work products, as personally judged in each instance by a certificated teacher.

Education Code section 51748 states:

School districts and county offices of education shall not be eligible to receive apportionment for independent study attendance by any pupil who is not otherwise identified in the written records of the district or county board by grade level, program placement, and the school in which he or she is enrolled.

Good internal controls require that the district maintain complete and accurate records.

This is a repeat of prior year Findings 06-40, 05-24, 04-40, and 03-96.

Recommendation

The district should:

- Implement procedures to ensure that all contracts are properly completed and retained.
- Implement procedures to ensure that all work samples of Independent Study students and all relevant records of these students are retained and made available for review.
- Implement a program to review contracts and work samples to ensure they contain all required elements.
- Review attendance information reported to CDE to ensure accuracy.
- Submit a revised Report of Attendance (P2) reflecting the 60.95 disallowed ADA, and repay \$337,564 in funding to the State.

District's Response

OUSD will review its current Independent Study forms and procedures to ensure they fulfill all program requirements. Modifications will be made as needed.

OUSD continues to provide training for principals and school site staff on the Independent Study procedures and documentation as required by the Ed. Code. All principals will be made aware that independent study documents and directions are available on the OUSD intranet website via the operations library section.

The District will conduct random school site checks of Independent Study contracts and related student work to ensure that all completed contracts contain all required elements.

All Independent Study attendance information will be reviewed for accuracy before submission to the CDE.

When audit is finalized and reported OUSD will submit amended P2 report.

**FINDING 07-27—
District exceeded
allowable ratio
of independent study
students to teachers
(30000) (40000)**

Our review of the district’s independent study student-to-teacher ratio calculations disclosed that the ratio of independent study students to teachers exceeded the ratio of regular students to teachers.

The independent study student to teacher ratio was 21.66 students to teacher, and the ratio of non-independent study students to teacher was 19.34 students to teacher. California Department of Education (CDE) instructions for ratio calculations require the fractional number be rounded down. The district should have followed CDE instructions and rounded the fractional number from 21.66 and 19.34, to 21 and 19, respectively. Therefore, the average number of independent study students to teacher exceeded the average number of regular students to teacher by 2. However, the district determined the excess independent study students to teacher to be 2.33 students to teacher. The district should have followed CDE instructions and rounded the fraction from 2.33 to 2. The average number of independent study students per independent study teacher exceeded the average number of regular students per teacher by 2, as calculated below:

Independent Study ADA-to-Teacher Ratio Summary Calculations

Fiscal Year 2006-07

ADA-to-Teacher-Ratio Calculations for Non-independent Study	District Calculation	Audited Calculation
<u>Non-independent Study ADA Calculations</u>		
Total ADA (A)	35,808.81	35,808.81
ADA for full-time Independent Study (FTE) (B)	277.29	277.29
Total non-IS ADA (A – B = C)	35,531.52	35,531.52
<u>Non-independent Study ADA-to-Teacher Ratio (ADA/FTE)</u>		
Total non-I/S ADA (C)	35,531.52	35,531.52
Full-Time Equivalent (FTE) in direct instruction of non-I/S ADA (D)	1,837.46	1,817.14
ADA per FTE for non-I/S (C ÷ D = E)	19.34	19.55
Ratio Number (E rounded down)	19	19
ADA-to-Teacher Ratio Calculations for-Independent Study	District Calculation	Audited Calculation
<u>I/S ADA-to-Teacher Ratio (ADA/FTE)</u>		
ADA for full-time I/S (B)	277.29	277.29
FTE in direct supervision of I/S (F)	12.80	12.80
ADA per FTE for I/S (B ÷ F = G)	21.66	21.66
Ratio Number (G rounded down)	21	21

Calculations of Funding Owed	District Calculation	Audited Calculation
Excess student in I/S (E rounded down – G rounded down = H)	2.33	2.00
FTE in direct instruction of I/S ADA (F)	<u>12.80</u>	<u>12.80</u>
Total Excess I/S ADA (H × F = I)	29.77	25.60
Base Revenue Limit (J)	<u>\$ 5,538.16</u>	<u>\$ 5,538.37</u>
Total owed to the State (I × J = K)	<u>\$ 164,885</u>	<u>\$ 141,782</u>

Education Code 51745.6 states, in part:

(a) The ratio of average daily attendance for independent study pupils 18 years of age or less to school district full-time equivalent certificated employees responsible for independent study, calculated as specified by the State Department of Education, shall not exceed the equivalent ratio of pupils to full-time certificated employees for all other educational programs operated by the school district. The ratio of average daily attendance for independent study pupils 18 years of age or less to county office of education full-time equivalent certificated employees responsible for independent study, to be calculated in a manner prescribed by the State Department of Education, shall not exceed the equivalent ratio of pupils to full-time certificated employees for all other educational programs operated by the high school or unified school district with the largest average daily attendance of pupils in that county. The computation of those ratios shall be performed annually by the reporting agency at the time of, and in connection with, the second principal apportionment report to the Superintendent of Public Instruction.

(b) Only those units of average daily attendance for independent study that reflect a pupil-teacher ratio that does not exceed the ratio described in subdivision (a) shall be eligible for apportionment pursuant to Section 42238.5, for school districts, and Section 2558, for county offices of education. Nothing in this section shall prevent a school district or county office of education from serving additional units of average daily attendance greater than the ratio described in subdivision (a), except that those additional units shall not be funded pursuant to Section 42238.5 or Section 2558.

(c) The calculations performed for purposes of this section shall not include. . . .

(1) The average daily attendance generated by special education pupils enrolled in special day classes on a full-time basis, or the teachers of those classes...

Good internal controls require that the district ensure that the ratio of independent study students to teachers does not exceed the ratio of non-independent study students to teachers.

California Department of Education Instructions for Ratio Calculations states, in part:

The Ratio of Average Daily Attendance (ADA) to Supervising Teacher in Independent Study, Pursuant to Education Code Section 51745.6...

For School Districts:

Step 2:

Fractional numbers in the total are to be rounded down, unless the total is less than one (1.0) – for example, 5.3 or 5.6 FTE supervising teachers rounds down to 5 in both instances, but 0.4 FTE is reported as 1.0.

Districts shall be funded on the lesser of the maximum ADA computed per these instructions or the actual ADA reported for independent study.

The independent study student-to-teacher ratio exceeded the Non-independent study student-to-teacher ratio by 2, resulting in an excess amount of Independent Study ADA claimed of 25.60, which equates to \$141,782 in excess funding.

Recommendation

The district should:

- Monitor the ratio of Independent Study students to teachers to ensure that the ratio does not exceed the ratio of Non-independent Study students to teachers;
- Revise the 2006-07 P2-ADA to exclude the excess 25.60 ADA; and
- Repay the State \$141,782 for the unallowable excess ADA.

District's Response

OUSD will implement a systematic procedure to review the student enrollment data for the full-time Independent Study Program. The procedure will monitor (on an ongoing basis) the ratio of independent study students to teachers in order to ensure the ratio does not exceed the ratio of non-independent study students to teachers.

When audit is finalized and reported OUSD will submit amended P2 report.

**FINDING 07-28—
Continuation
education attendance
recording and
reporting deficiencies
(30000) (40000)**

We tested the attendance for two continuation school sites and noted the following discrepancies between scantrons and the Aeries attendance accounting system:

- Dewey Academy

The Aeries attendance accounting system reported eight students absent when the scantrons reported the same students present, resulting in the district under-reporting attendance by 6.5 hours.

- Rudsdale Continuation

The Aeries attendance accounting system reported one student absent when the scantron reported the student present, resulting in the district under-reporting attendance by 50 minutes.

The Aeries attendance accounting system reported two students present when the scantrons reported the same students absent, resulting in the district over-reporting attendance by 1 hour and 40 minutes.

For the two sites tested, we also observed that the Aeries system does not credit attendance hours in the increments indicated by the bell schedules. The system included passing time between classes, which is not included in the scheduled class time for continuation education. The system's schedule for minimum days on Wednesdays was over-reported for Dewey Academy between 9 to 12 minutes for periods 0 through 4. In addition, the Aeries system did not include a 5th period in the scheduling.

The district had no explanation for the discrepancies. Apportionment attendance is not affected by overstated hours, unless the hours were carried back and used to backfill absences. It is not possible to determine what effect carry-back hours may have had; any effect would be immaterial.

Title 5, CCR, section 406 states, in part:

Attendance shall be reported in clock hours for the following:

(d) Pupils in continuation education schools or classes.

Good internal control and best business practices require that reporting of continuation attendance hours be accurate.

This is a partial repeat of prior year Finding 06-41.

Recommendation

The district should ensure that:

- Attendance reported in the Aeries attendance accounting system agrees to the scantrons with which role was taken, and
- The Aeries system is crediting attendance hours in increments as indicated by the school-site bell schedules in accordance with clock hours reporting required by CCR, Title 5, section 406.

District's Response

The AERIES hourly attendance report is run with different user parameters to indicate the algorithm that should be used to compute hourly attendance. The AERIES system does credit attendance hours according to a student's absence report and AERIES bell schedule.

Central Administration staff will conduct random checks of schools to ensure bell schedules posted at the schools and provided to students and parents and the bell schedule in AERIES match the official bell schedule.

**FINDING 07-29—
Adult Education:
Attendance reporting
deficiencies and lack
of internal control
(10000) (30000)
(40000)**

Attendance Reporting

Our review of adult education disclosed the following attendance reporting deficiencies:

- The district's monthly attendance summaries for concurrent and non-concurrent attendance hours and the summaries from the adult education school sites did not reconcile. For attendance month 3, the district over-reported non-concurrent student attendance apportionment by 2,360.5 hours. This overstatement equates to \$11,388 in state funding. For attendance month 5, the district over-reported concurrent student attendance apportionment by 20 hours. This overstatement equates to \$101. However, all concurrent student attendance hours have been disallowed due to a non-compliant concurrent-student enrollment form (See Finding 07-30, Adult Education: Enrollment form deficiencies for concurrent students).
- The attendance hours reported on the scantrons of four out of four classes tested for attendance from Pleasant Valley Adult School did not agree to the attendance hours claimed for apportionment. The total variance of the four classes resulted in an understatement of attendance apportionment by 78.5 hours, which equates to \$380.
- The attendance hours reported on the scantrons of four out of four classes tested for attendance from Edward Shands Adult School did not agree to the attendance hours claimed for apportionment. The total variance of the four classes resulted in an overstatement of 23 hours, which equates to \$111.

Internal Controls

Our review of 131 adult-education attendance registers (scantrons) at both Pleasant Valley Adult School and Edward Shands Adult School disclosed the following internal control deficiencies or questionable items:

- Ten out of 131 scantrons reviewed were printed after the date of the class. The scantron must be printed and available to the teacher prior to the date and time the class takes place.
- Seven out of 131 scantrons reviewed had the same student's name listed twice, and the teacher took roll for the same student twice. Although the students were not counted twice for apportionment, the students should not have been listed more than once for any given class.
- There were three instances in which there was a duplicate scantron for a class of students.
- One of the scantrons was not signed by the teacher.

- In one instance, the scantrons for a class of 105 students reported 91 students had attended the entire 6 hour class and each of the 91 students was awarded 6 hours of attendance credit. However, the last page of the scantrons was subsequently changed and the attendance for all students on the last page was reduced by 2 hours. All students whose names appeared on the last page of the scantrons were awarded 4 hours of attendance credit. It is questionable that all 91 students would attend the entire 6 hour class and that attendance for all students on the last page of the scantrons would need to be subsequently reduced by two hours.

Education Code section 46000 states:

Attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education, subject to the provisions of this chapter.

Good internal controls and best business practices require the district to implement policies and procedures requiring attendance data to be reported on a timely and consistent basis and in accordance with CDE instructions. Good internal controls also require the district to verify supporting documents to reported information and maintain supporting records.

This is a repeat of prior year Findings 06-42, 05-26, and 04-45

Recommendation

The district should:

- File a revised Report of Attendance with the CDE and reimburse the State the amount of \$11,220.
- Ensure that teachers have scantrons on or before the first date on the scantron for which roll is to be taken.
- Ensure that class rosters include students only once.
- Ensure that teachers properly take roll.
- Ensure that attendance records are maintained that support the Report of Attendance.

District's Response

OUSD disputes this finding. OUSD has reviewed all aspects of the 2006-07 3rd statistical report (October 30, 2006 – December 2, 2006). The sum of hours for concurrent students was 2,360.5, generated from one site, Edward Shands Adult School. The sum of hours for non-concurrent students was 269,662.5, generated from all sites. The grand total of hours claimed by Oakland Adult Center for Education (OACE) was 272,023.00. OUSD reviewed the addition from the individual site reports to the summary report, and it is correct. OUSD does not see any error.

Based upon student attendance, OUSD updates enrollment scantron sheets on regular basis. Accurate and timely scantron enrollment sheets enable student attendance to be taken, documented, and reported in such a way as to meet program requirements. This practice prevents a delay in student entry and exit from classes from showing up on scantron enrollment sheets. It reduces the need for teachers to do hand-written "write ins" of new students for several weeks. OUSD will modify current practice to address the SCO audit finding, but does not believe that it will add to overall attendance accounting accuracy.

SCO Comment

On October 1, 2009, in response to the district's dispute on this finding, we provided a reconciliation of the district's monthly attendance summaries for concurrent and non-concurrent attendance hours to the district. As stated in the finding, our reconciliation showed the district over-stated non-concurrent student attendance apportionment by 2,360.5 hours and concurrent student attendance apportionment by 20 hours. The district did not respond to our reconciliation or change its response.

The district reported 272,023 attendance hours for all Oakland Adult Center for Education students in the column intended only for non-concurrent students attendance. Based on our review, the district should have reported non-concurrent student attendance hours of 269,662.5. As a result, adult education attendance was overstated by 2,360.5 hours. The finding remains unchanged.

**FINDING 07-30—
Adult Education:
Enrollment form
deficiencies for
concurrent students
(10000) (40000)**

In the 2006-07 school year, the district's Concurrent Student Referral Form did not contain a statement, signed by the pupil, acknowledging the pupil's voluntary enrollment in the adult education course or class. The forms used by the district contain a statement signed by the counselor that verifies that the student voluntarily enrolled in the adult education courses.

Education Code section 52500.1(b) states:

High school pupils who have completed a counseling session that involved the pupil, a certified representative of the high school, and the pupil's parent or guardian, and who have a school record that contains written documentation of the session and a statement that the pupil is voluntarily enrolling in the adult education program or course, and that enrollment in the adult education program, course or class will enhance the pupil's progress toward meeting the educational requirements for graduation from high school.

Commencing July 1, 1994, no school district shall enroll high school pupils pursuant to this subdivision unless the school district complies with the conditions set forth in this subdivision.

The concurrent student enrollment form should be revised. The student should sign a statement acknowledging his/her voluntary enrollment in the adult education program.

No attendance is disallowed.

Recommendation

The district should:

- Ensure that the Concurrent Student Referral Form it uses to refer and register concurrent students contains a statement signed by the high school student that indicates that the student is voluntarily enrolling in Adult Education classes.

District's Response

OUSD disputes this audit finding. Education Code 52500.1 describes one of the conditions for enrollment in adult education programs: "*High school pupils who have completed a counseling session that involved the pupil, a certificated representative of the high school, and the pupil's parent or guardian, and who have a school record that contains written documentation of the session and a statement that the pupil is voluntarily enrolling in the adult education course or class....*"

The concurrent enrollment form that is being challenged includes a box in which it is stated:

“The Counselor’s signature verifies that the student has been counseled and enrollment in adult school is voluntary.” The statement is then followed by a signature line for the counselor.

OUSD has since amended the form to include a reference to the voluntary nature of the student’s enrollment in two additional places, but OUSD contends that the earlier form was sufficient, legal and entirely compliant.

SCO Comment

The high school student should sign a statement that he/she is voluntarily enrolling in the adult education program. We cannot determine that a high school student is voluntarily attending adult education classes if another individual, especially a school district employee, signs the statement that the student is voluntarily enrolling in the adult education program. The student can dispute the voluntary statement if it is signed by another individual but not if he/she signs the statement. Education code 52500.1 does not state that another person is permitted to make the voluntary statement for the student.

**FINDING 07-31—
Instructional time
program deficiencies
(30000) (40000)**

The district's calculation of instructional time is not supported by the documentation provided by the school site. The district implemented a new process of calculating instructional minutes using an online system. However, the district did not implement adequate internal control procedures to verify or ensure that the schools sites had entered correct information into the system.

We obtained the bell schedules for 11 sample school sites and noted variances as follows in 9 of the 11 schools:

<u>School</u>	<u>Grade Level</u>	<u>Total Minutes (Per District)</u>	<u>Total Minutes (Per School Site)</u>	<u>Variance</u>
Lakeview Elementary	K	62,100	56,700	5,400
Lakeview Elementary	1	57,600	57,600	0
Lakeview Elementary	2	63,000	57,600	5,400
Lakeview Elementary	3	63,000	57,600	5,400
Lakeview Elementary	4	59,400	59,400	0
Lakeview Elementary	5	59,400	59,400	0
Lincoln Elementary	K	54,845	54,845	0
Lincoln Elementary	1	54,415	54,845	(430)
Lincoln Elementary	2	54,415	54,845	(430)
Lincoln Elementary	3	54,415	54,845	(430)
Lincoln Elementary	4	56,135	54,845	1,290
Lincoln Elementary	5	56,134	54,845	1,290
Parker Elementary	K	59,220	55,800	3,420
Parker Elementary	1	59,220	59,300	(80)
Parker Elementary	2	59,220	59,300	(80)
Parker Elementary	3	59,220	56,500	2,720
Parker Elementary	4	59,220	56,500	2,720
Parker Elementary	5	59,220	56,500	2,720
Claremont Middle	6	58,300	58,965	(665)
Claremont Middle	7	58,300	58,965	(665)
Claremont Middle	8	58,300	58,965	(665)
Cole Middle	6	59,355	59,895	(540)
Cole Middle	7	59,490	59,895	(405)
Cole Middle	8	59,490	59,895	(405)
Sherman Elementary	K	55,350	54,100	1,250
Sherman Elementary	1	55,350	54,100	1,250
Sherman Elementary	2	53,970	54,100	(130)
Sherman Elementary	3	53,970	54,100	(130)
Sherman Elementary	4	55,350	56,400	(1,050)
Sherman Elementary	5	55,350	56,400	(1,050)
Think College Now	K	50,015	56,120	(6,105)
Think College Now	1	54,865	57,020	(2,155)
Think College Now	2	54,865	57,920	(3,055)
Think College Now	3	54,865	54,320	545
Think College Now	4	55,245	57,020	(1,775)
Think College Now	5	55,245	57,020	(1,775)
Havenscourt Middle	8	61,142	61,688	(546)
Oakland High	9	65,445	65,310	135
Oakland High	10	65,445	65,310	135
Oakland High	11	65,445	65,310	135
Oakland High	12	65,445	65,310	135

We were able to recalculate the instructional time for 11 sample school sites and determine that all sites offered at least the minimum amount of instructional minutes required by Education Code section 46201 (a)(3).

Education Code section 46201(a)(3) states, in part:

In the 1986-87 fiscal year:

- (A) Thirty-six thousand minutes in kindergarten.
- (B) Fifty thousand four hundred minutes in grades 1 to 3, inclusive.
- (C) Fifty-four thousand minutes in grades 4 to 8, inclusive.
- (D) Sixty-four thousand eight hundred minutes in grades 9 to 12, inclusive.

Education Code section 46201(d) states:

For each school district that receives an apportionment pursuant to subdivision (a) in the 1986-87 fiscal year and that reduces the amount of instructional time offered below the minimum amounts specified in either paragraph (3) of subdivision (a) or paragraph (1) of subdivision (b), whichever is applicable, in the 2001-02 fiscal year, or any fiscal year thereafter, the Superintendent of Public Instruction shall withhold from the district's revenue limit apportionment for the average daily attendance of each affected grade level, the sum of that apportionment multiplied by the percentage of the minimum offered minutes at that grade level that the district failed to offer.

Best business practices require that district management implement internal controls to ensure that information is reported correctly and is compliant with program requirements.

Recommendation

The district should implement a review process to ensure that:

- Class times have been accurately entered into the system which calculates instructional minutes;
- The sites are offering the required minimum instructional minutes; and,
- A comparison of class times in the system to bell (class) schedules for each site is performed.

District's Response

OUSD emphasizes that this finding indicates that all reviewed schools met state instructional minute requirements.

OUSD has improved the training of principals to inform them that all bell schedules provided to parents and students must match the official bell schedule (which has been entered, reviewed, and approved through the online bell schedule instrument).

Central Administration staff will conduct random checks of schools to ensure bell schedules posted at the schools and provided to students and parents match the official bell schedule.

**FINDING 07-32—
Morgan-Hart average
class size calculation
not supported by
teacher scantron forms
(30000) (40000)**

The teacher scantron forms do not support the district's calculation of average monthly class size for classes participating in the Morgan-Hart Class Size Reduction program.

We attempted to recalculate the average class size for 11 classes for three months, a total of 33 months. However, in seven of the sample months, the class did not exist, therefore, we tested a total of 26 months. We noted variances in 21 of the 26 sample months we were able to test. We discussed the variances with district personnel and were able to determine the variances resulted because the district's attendance system indicated students had enrolled in a class (or dropped a class) but the teacher had not written a student's name on the scantron form or in any way indicated that a student had enrolled in (or dropped) the class. It appears that teachers were not taking roll (See finding 07-22). The variance of 759 was noted on the scantron for the 26 students in the two classes as follows:

<u>Scantron</u>	<u>System Report - D1</u>	<u>Variance</u>
09/05/2006	08/28/2006	4 days
11/06/2006	11/14/2006	5 days
09/25/2006	10/02/2006	5 days
08/28/2006	not enrolled	9 days
08/28/2006	not enrolled	9 days
10/09/2006	10/02/2006	5 days
09/05/2006	08/28/2006	5 days
		<u>42 days</u>

<u>Scantron</u>	<u>System Report - D1</u>	<u>Variance</u>
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	02/02/2007	65 days
10/09/2006	05/23/2007	137 days
10/23/2006	10/05/2006	10 days
10/23/2006	10/26/2006	3 days
10/23/2006	10/26/2006	3 days
11/06/2007	11/13/2006	4 days
09/11/2006	09/18/2009	5 days
10/09/2006	09/29/2006	5 days
11/06/2007	11/13/2006	4 days
08/28/2006	09/07/2006	7 days
09/11/2006	09/25/2006	10 days
10/23/2006	10/09/2006	9 days
		<u>717 days</u>

As a result, we were unable to fully perform the audit procedures in the K-12 Audit Guide –Title 5, CCR, section 19827(c)(2), that requires the auditor to “trace site summaries to contemporaneous documentation” because the attendance/enrollment information reported by the district was not supported by teacher scantron forms. As a result, we will include a scope limitation in the Report on State Compliance.

This is a repeat of prior year finding 06-44.

In addition, the district’s Form J-9 MH-A was not mathematically accurate. We noted a transposition error on the form. The full-year-enrollment-equivalent (FYEE) for one class was incorrectly reported as 300.70 instead of 300.07 which resulted in an overstatement of .63 FYEE. We also noted rounding variances that total .03. The total variance noted was .66. This amounts to \$135 in excess funding claimed by the district (.66 X \$204).

Best business practices require adequate internal controls to ensure information reported is accurate and complete.

Recommendation

The district should:

- Offer attendance reporting training to teachers and implement internal control procedures, such as a review of attendance records, to ensure that the teacher scantrons are accurate and support attendance and enrollment data reported in the AERIES system.
- Review information before reports are distributed.
- Repay the State the excess funding received of \$135.

District’s Response

OUSD continues to strengthen its internal controls at school sites to ensure that all relevant attendance documents are generated, reviewed, approved and maintained in an organized manner. All attendance documents and records are reconciled prior to being reported to CDE. Technical Services Department Staff provide continuous training classes and materials for school attendance staff.

OUSD has expanded training of school site staff to ensure proper attendance recording and reconciliation. Financial Services Staff continue to monitor attendance accounting throughout the year to ensure staff at school sites are correctly reporting attendance and enrollment.

OUSD formed the Data and Student Quality Committee to identify and address issues involving attendance accounting. The committee meets on a regular basis.

In 2009, OUSD certified its Attendance Software System and Attendance Process with CDE.

OUSD continues to improve its attendance procedures as schools implement the use of the AERIES Browser Interface (ABI) system. This online system enables teachers to input attendance data directly in AERIES. This system also improves the timeliness and accuracy of attendance monitoring.

**FINDING 07-33—
Expenditures not in
compliance with
instructional materials
program requirements
(30000) (40000) (70000)**

During our review of instructional materials expenditures, we noted the following deficiencies in use of instructional materials funds:

- Although the district implemented a new plan to review instructional materials purchases for allowability, funds in the amount of \$35,529 were inappropriately expended for salaries.
- We tested 15 instructional materials expenditures for grades K-8 (total amount \$3,071,584 or 62% of total K-8 expenditures) and noted that 5 of the expenditures (total amount \$183,845) contained at least one item that was non-compliant because the texts were not listed on the California Department of Education’s list of adopted text books.
- In addition, we did not receive invoices (total amount \$61,691) for some of the items in 2 of the 15 sample expenditures.
- We tested 6 instructional materials expenditures for grades 9-12 (total amount \$127,965 or 22% of total 9-12 expenditures) and noted that all of the expenditures were non-compliant because the texts were not listed on the list of texts adopted by the district’s governing board.

As a result, we have disallowed instructional materials expenditures in the amount of \$409,030.

California Education Code section 60010 states, in part:

- (a) “Basic instructional materials” means instructional materials that are designed for use by pupils as a principal learning resource and that meet in organization and content the basic requirements of the intended course.
- (h) “Instructional materials” means all materials that are designed for use by pupils and their teachers as a learning resource and help pupils to acquire facts, skills, or opinions or to develop cognitive processes. Instructional materials may be printed or non-printed, and may include textbooks, technology-based materials, other educational materials, and tests.

California Education Code section 60422 (a) states:

A local governing board shall use funding received pursuant to this chapter to ensure that each pupil is provided with a standards-aligned textbook or basic instructional materials, as adopted by the State Board of Education subsequent to the adoption of content standards pursuant to section 60605 for kindergarten and grades 1 to 8, inclusive, or as adopted by the local governing board pursuant to sections 60400 and 60411, for grades 9 to 12, inclusive. Pupils shall be provided with standards-aligned textbooks or basic instructional materials by the beginning of the first school term that commences no later than 24 months after those materials were adopted by the State Board of Education.

This is a repeat of prior year Findings 06-46 and 05-33.

Recommendation

The district should:

- Ensure that instructional materials funds are expended only for instructional materials as defined in California Education Code section 60010.
- Ensure that textbooks purchased for grades K-8 are included in the list of textbooks that are adopted by the California Department of Education.
- Ensure that textbooks purchased for grades 9-12 are included in the list of textbooks that are adopted by the district's school board.
- Reimburse the State for unallowable costs claimed in the amount of \$409,030.

District's Response

OUSD has presented new information and documentation to the SCO auditors and is awaiting a response.

SCO Comment

The district was able to provide some additional invoices. The additional invoices provided evidence that the district expended an additional \$46,845 on instructional materials that were listed on the CDE approved list. The total disallowance dropped from \$455,875 to \$409,030. A revised finding was sent to the district on September 28, 2009.

On October 15 and 16, 2009, the District provided additional finding responses and responses to SCO Comments. These additional responses are included as an attachment at the end of this report.

Our finding remains unchanged.

**FINDING 07-34—
Inaccurate calculation
of administrator-to-
teacher ratio
(30000) (40000)**

We recalculated the district's ratio of administrative employees to teachers and determined that the district exceeded the maximum number of allowable administrative employees by 78. We noted that there were some positions, and employees for those positions, who were incorrectly excluded by the district in its calculation. In addition, we noted that special education teachers who should be exempt because they were paid with categorical funds were included in the calculation. We observed the following variances from the Full Time Equivalent (FTE) amounts for teachers and administrative employees that the district used in completing the Employee Ratio Worksheet for the fiscal year 2006-07:

Position	District FTE	Audited FTE	Variance
Admin Special Assign I	1.00	2.00	(1.00)
Admin Special Assignment V	6.15	9.20	(3.05)
Coordinator Certificated	2.50	14.00	(11.50)
Executive Officer-School Network	8.60	8.60	0.00
Manager K-12 Math/Science	0.50	1.00	(0.50)
Manager of School Improvement	0.50	0.50	0.00
Admin Special Assignment III	1.80	4.00	(2.20)
Administrator	1.00	0.30	0.70
Chief Academic Officer-A Supt	1.00	1.00	0.00
Chief Community Accountability	1.00	1.00	0.00
Director, Executive	2.00	3.00	(1.00)
Program Manager Certificated	1.00	2.00	(1.00)
Assistant Principal Elementary	10.20	19.00	(8.80)
Assistant Principal High	9.00	11.00	(2.00)
Assistant Principal Middle	21.50	26.00	(4.50)
Asst Principal Alternative Ed	1.00	1.00	0.00
Principal Elementary Large	19.00	19.00	0.00
Principal Elementary Small	40.00	40.00	0.00
Principal High School	5.00	5.00	0.00
Principal High Small	16.00	17.00	(1.00)
Principal Middle	19.60	20.00	(0.40)
Teacher If 11 Month-12 Pay *	0.00	45.00	(45.00)
Teacher Inst Facilitator 10 Pay *	0.00	3.60	(3.60)
Teacher Intr Facilitator 12 Pay *	0.00	3.00	(3.00)
Teacher On Special Assign 10 Pay *	0.00	41.10	(41.10)
Teacher On Special Assign 12 Pay *	0.00	18.80	(18.80)
Teacher Tsa 11 Month-12 Pay *	0.00	43.75	(43.75)
Admin Special Assign II	2.95	4.00	(1.05)
Director Certificated	0.95	2.00	(1.05)
School Improvement Coach-12 Pay *	0.00	1.80	(1.80)
School Improvement Coach *	0.00	2.10	(2.10)
Manager English Language Arts	0.00	1.00	(1.00)
Manager New Teacher Support	0.00	1.00	(1.00)
Manager Professional Development Vendors	0.00	1.00	(1.00)
Mgr Leadership Development Certificate	0.00	1.00	(1.00)
Teacher Consulting/Peer	0.00	2.00	(2.00)
Total Administrative FTE	172.25	375.75	(203.50)

TABLE 2

Exempt Administrative FTE

Position	District FTE	Audited FTE	Variance
Admin Special Assign I	1.00	2.00	(1.00)
Admin Special Assignment V	6.15	3.80	2.35
Coordinator Certificated	2.50	13.00	(10.50)
Executive Officer-School Network	8.60	1.20	7.40
Manager K-12 Math/Science	0.50	1.00	(0.50)
Manager of School Improvement	0.50	0.50	0.00
Admin Special Assignment III	1.80	2.20	(0.40)
Administrator	1.00	0.30	0.70
Chief Academic Officer-A Supt	1.00	0.00	1.00
Chief Community Accountability	1.00	0.00	1.00
Director, Executive	2.00	1.00	1.00
Program Manager Certificated	1.00	1.00	0.00
Assistant Principal Elementary	0.00	1.00	(1.00)
Assistant Principal High	0.00	0.00	0.00
Assistant Principal Middle	0.00	0.65	(0.65)
Asst Principal Alternative Ed	0.00	0.00	0.00
Principal Elementary Large	0.00	0.00	0.00
Principal Elementary Small	0.00	0.00	0.00
Principal High School	0.00	0.00	0.00
Principal High Small	0.00	1.00	(1.00)
Principal Middle	0.00	0.00	0.00
Teacher If 11 Month-12 Pay *	0.00	40.85	(40.85)
Teacher Inst Facilitator 10 Pay *	0.00	2.85	(2.85)
Teacher Intr Facilitator 12 Pay *	0.00	2.00	(2.00)
Teacher On Special Assign 10 Pay *	0.00	28.10	(28.10)
Teacher On Special Assign 12 Pay *	0.00	14.86	(14.86)
Teacher Tsa 11 Month-12 Pay *	0.00	35.75	(35.75)
Admin Special Assign II	2.95	1.05	1.90
Director Certificated	0.95	1.05	(0.10)
School Improvement Coach-12 Pay *	0.00	0.00	0.00
School Improvement Coach *	0.00	1.60	(1.60)
Manager English Language Arts	0.00	1.00	(1.00)
Manager New Teacher Support	0.00	1.00	(1.00)
Manager Professional Development Vendors	0.00	1.00	(1.00)
Mgr Leadership Development Certificate	0.00	1.00	(1.00)
Teacher Consulting/Peer	0.00	2.00	(2.00)
Total Exempt Administrative FTE	<u>30.95</u>	<u>162.76</u>	<u>(131.81)</u>

TABLE 3

Teacher FTE

Position	District FTE	Audited FTE	Variance
Teacher Adapted PE	3.60	0.00	3.60
Teacher Bilingual	187.10	187.10	0.00
Teacher Education Enhancement/Intvnt Prog	43.53	43.53	0.00
Teacher Hearing Impaired	3.00	0.00	3.00
Teacher Home/Hospital	2.00	0.00	2.00
Teacher on Loan	1.00	1.00	0.00
Teacher Orientation/Mobility	4.15	0.00	4.15
Teacher Replacement	4.00	4.00	0.00
Teacher SDC Non Severely Handicapped	106.00	0.00	106.00
Teacher SDC Severely Handicapped	75.00	0.00	75.00
Teacher Tap	1.00	1.00	0.00
Teacher Visually Impaired	2.80	0.00	2.80
Teacher Department Head	34.32	34.32	0.00
Teacher ROTC	4.00	4.00	0.00
Teacher Rsp	86.70	0.00	86.70
Teacher Structured Eng Immersion	1376.96	1373.96	3.00
Teacher Adult Education	42.99	42.99	0.00
Total Teacher FTE	<u>1978.15</u>	<u>1691.90</u>	<u>286.25</u>

TABLE 4 Pupil Services FTE

Position	District FTE	Audited FTE	Variance
Counselor	30.48	30.48	0.00
Nurse	3.92	3.92	0.00
Psychologist	32.66	1.56	31.10
Social Worker	11.24	2.24	9.00
Teacher Library/Media	4.85	4.85	0.00
Total Pupil Service FTE	83.15	43.05	40.10

* The district did not include these positions (exempt or non-exempt) in the administrative portion of the ratio calculation:

- Teacher If 11 Month-12 Pay
- Teacher Inst Facilitator 10 Pay
- Teacher Instr Facilitator 12 Pay
- Teacher On Special Assign 10 Pay
- Teacher On Special Assign 12 Pay
- Teacher Tsa 11 Month-12 Pay
- School Improvement Coach-12 Pay
- School Improvement Coach
- Manager English Language Arts
- Manager New Teacher Support
- Manager Professional Development Vendors
- Mgr Leadership Development Certificate
- Teacher Consulting/Peer

The noted variances equate to 78 excess administrative employees as follows:

Calculation of Administrator-Teacher Ratio

	District Calculation	Audited Calculation	Variance
Administrative ¹ (A)	172.25	375.75	(203.50)
Exempt Administrative ² (B)	30.95	162.76	(131.81)
Net Administrative (A – B = C)	141.30	212.99	(71.69)
Teachers ³ (D)	1978.15	1691.90	286.25
Pupil Services ⁴ (E)	83.15	43.05	40.10
Allowed Ratio ⁵ (F)	0.08	0.08	0.00
Maximum Administrators (D × F = G)	158.25	135.35	22.90
Actual Excess (C – G = H)	0.00	77.63	(77.63)
Rounded Excess (I = H rounded to whole amount)	0.00	78.00	(78.00)

¹ Total Administrative FTE per Table 1.

² Total Exempt Administrative FTE per Table 2.

³ Total Teacher FTE per Table 3.

⁴ Total Pupil Service FTE per Table 4.

⁵ Maximum ratio of administrative employees to each 100 teachers per California Education Code section 41402.

We calculated the penalty for the 78 excess administrators using the CDE's worksheet provided at its Web site [<http://www.cde.ca.gov/fg/aa/ca/documents/atrworksheet.doc>]; the penalty equates to \$1,336,296 as follows:

Calculation of Penalty for Excess Administrator FTE	
A. District's Total State Revenue	\$ 139,849,319 ¹
B. District's Total Revenue and Other Financing Sources	688,251,947 ²
C. Portion of State Revenue in Total Revenue (A/B)	20.32%
D. Total Annual Salaries of the Administrative FTE	31,680,032 ³
E. Average Administrator Salary	84,311 ⁴
F. State Funded Share of Administrator Salary (E × C)	17,132
G. Penalty	<u>\$ 1,336,296 ⁵</u>

California Education Code section 41402 states:

The maximum ratios of administrative employees to each 100 teachers in the various types of school districts shall be as follows:

- (a) In elementary school districts – 9.
- (b) In unified school districts – 8.
- (c) In high school districts – 7.

This section shall not apply to a school district that has one or fewer administrators.

California Education Code section 41403 states, in part:

The Superintendent of Public Instruction shall determine, for each current fiscal year, for each school district in the state, to two decimal points, the following:

- (a) The total number of administrative employees, except those serving in positions that are supported by categorical grants from any source and are in programs that require specific teacher/administrator ratios, or that are supported by federal funds. As to those serving in positions that are not supported completely by these categorical grants from any source or completely by federal funds, the number of employees reported shall include the full-time equivalent of all fractional time attributable to that time not supported by categorical grants or federal funds.

¹ Source: 2005-06 Audit Report – Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2006 – Total Governmental Fund for Other State Revenues.

² Source: 2005-06 Audit Report – Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2006 – Total Governmental Funds for Total Revenues (\$539,797,621) + Proceeds from sale of bonds (\$141,000,000) + All other financing sources (\$7,454,326) = \$688,251,947.

³ Per district's 2006-07 unaudited actuals (by object code).

⁴ [\$31,680,032 ÷ 375.75 (Total Administrative FTE) = \$84,311].

⁵ [F × 78 (Rounded excess administrator FTE)].

- (b) The total number of teachers except those serving in positions that are supported by federal funds or by categorical grants from any source and are in programs that require specific teacher/administrator ratios. As to those serving in positions that are not supported completely by these categorical grants from any source or completely by federal funds, the number of employees reported shall include the full-time equivalent of all fractional time attributable to that time not supported by categorical grants or federal funds. Substitute teachers may be counted as teachers only if the employee for whom they are substituting is not counted. In no event shall the number of full-time equivalent teachers reported be greater than the number of full-time equivalent teaching positions in the district.

Good internal controls and best business practices require that management monitor its staffing to ensure compliance with Education Code requirements.

This is a repeat of prior year Findings 05-34 and 06-47.

Recommendation

The district should:

- Reimburse the State the penalty amount of \$1,336,296;
- Comply with California Education Code in including all administrative employees to whom the regulations apply; and
- Ensure that it uses accurate total FTE numbers of administrative employees and teachers in the ratio calculation.

District's Response

OUSD will calculate the administrator to teacher ratio in accordance with Ed. Code regulations and accurately complete the reporting forms.

**FINDING 07-35—
Bond expenditures not
uniquely identified;
scope limitation in
testing school
construction funds
(30000) (60000)**

We could not trace all expenditures to a specific bond measure in Fund 21, the Building Fund. Expenditures were posted to resource 0000 (unrestricted), 9099 (GO Bonds), and 9199 (GO Bonds – Measure B). Only 9.83% of the total expenditures in the Building Fund (\$4,294,601 ÷ 43,705,793) could be traced to a specific bond.

Our review of the Building Fund disclosed that the district received proceeds of a \$130 million bond issuance (Measure “B” Bonds) issued in fiscal year 2006-07 and identified these proceeds as resource code 9199, GO Bonds – Measure B.

The district issued bonds under the authority of Measure C in prior years and identified the proceeds as resource code 9099, GO Bonds. The district also issued bonds under the authority of Measure A and these proceeds were also identified as resource code 9099, GO Bonds. The bonds were issued for different purposes and contain different bond language. We cannot determine which bond proceeds were being expended; therefore, we could not determine whether a particular expenditure was authorized. In addition, we could not determine the remaining balance of either Measure A or Measure C funds.

The district also recorded interest earned on Cash in County Treasury, amounting to \$5,035,078, and an inter-fund transfer from the Capital Facilities Fund, of \$3,308,601, to resource code 9099, GO Bonds. As a result, the interest and the funds transferred from the Capital Facilities Fund could not be distinguished from the bond proceeds and interest earned on proceeds from Measure B.

Neither Measure A nor Measure C authorized the bond proceeds to be used for salary and employee benefit expenditures. However, the district charged both direct project management expenses and salary expenses to Measure A and Measure C, resource code, 9099, as follows:

<u>Description</u>	<u>Amount</u>
Salary and employee benefits	\$ 1,383,495
Direct project management	2,944,159
Computers and equipment	9,095
Furniture	<u>15,840</u>
Total	<u>\$ 4,352,589</u>

In addition, the district also charged salary and employee benefits amounting to \$22,238 to an unrestricted resource code, 0000.

Also, the bond issuance costs of \$823,600 were incorrectly charged to resource code 0000 for unrestricted resources, and to function 8500 for facilities acquisition and construction in Fund 21 (Building Fund). We were unable to identify where the \$393,567 cost for Underwriter’s Compensation was posted. The district should have charged resource code 9199 for Measure “B” G.O. Bonds, and function code 9100 for Debt Services in Fund 21 for total bond issuance costs of \$1,217,167.

The district transferred \$2,060,010 to the Deferred Maintenance Fund to be used as the district's required matching share of the deferred maintenance allowance. (See Finding 07-06, Deferred Maintenance Grant Not Properly Matched)

In addition, we noted that the district created a liability, Due to Other Funds, in the County School Construction Fund and created an asset, Due from Other Funds, in the Deferred Maintenance Fund. The district expended \$323,458 from the County School Construction Fund on roof repairs in prior fiscal years and transferred the expenditures to the Deferred Maintenance Fund in the 2007-08 fiscal year. The transfer is not an appropriate use of grant funds for the County School Construction Fund.

California Schools Accounting Manual (CSAM) section 310, Resource and Revenue Object Accounts states:

The resource field allows LEAs to account separately for activities funded with revenues that have restrictions on how the funds are spent (e.g., NCLB, Title 1) and for activities funded with revenues that have financial reporting or special accounting requirements (e.g., State Lottery).

Education Code section 15358 (b) states, in part:

The bond proceeds withdrawn shall not be applied to any other purposes than those for which the bonds were issued.

Education Code section 17072.35 states:

A grant for new construction may be used for any and all costs necessary to adequately house new pupils in any approved project, and those costs may only include the cost of design, engineering, testing, inspection, plan checking, construction management, site acquisition and development, evaluation and response action costs relating to hazardous substances at a new or existing schoolsite, demolition, construction, acquisition and installation of portable classrooms, landscaping, necessary utility costs, utility connections and other fees, equipment including telecommunication equipment to increase school security, furnishings, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology. A grant for new construction may also be used to acquire an existing government or privately owned building, or a privately financed school building, and for the necessary costs of converting the government or privately owned building for public school use. A grant for new construction may also be used for the costs of designs and materials that promote the efficient use of energy and water, the maximum use of natural lighting and indoor air quality, the use of recycled materials and materials that emit a minimum of toxic substances, the use of acoustics conducive to teaching and learning, and other characteristics of high performance schools.

Education Code section 17074.25 states:

A modernization apportionment may be used for an improvement to extend the useful life of, or to enhance the physical environment of, the school. The improvement may only include the cost of design, engineering, testing, inspection, plan checking, construction management, demolition, construction, the replacement of portable classrooms, necessary utility costs, utility connection and other fees, the purchase and installation of air-conditioning equipment and insulation materials and related costs, furniture and equipment, including telecommunication equipment to increase school security, fire safety improvements, playground safety improvements, the identification, assessment, or abatement of hazardous asbestos, seismic safety improvements, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology. A modernization grant may not be used for costs associated with acquisition and development of real estate or for routine maintenance and repair.

Bond Prospectus, Measure B, Page 2, Authority for Issuance, Purpose states:

The District received authorization at an election held on June 6, 2006, by more than 55% of the votes cast by eligible voters within the District, to issue bonds of the District pursuant to a ballot measure summarized as follows:

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, shall Oakland Unified School District issue \$435 million in bonds at interest rates within the legal limit and establish a Citizens' oversight Committee to monitor expenditures, with no money for administrator salaries?

Bond Measure A states:

To relieve overcrowding in Oakland's neighborhood schools and improve educational facilities for children, through projects such as constructing new schools; renovating classrooms and bathrooms, replacing electrical, plumbing, heating and ventilation systems; upgrading science labs and libraries, restoring arts/music rooms; and replacing deteriorating portable classrooms.

Bond Measure C states:

To provide safer neighborhood schools and improve learning skills necessary to our children's future, shall the Oakland Unified School District issue bonds to:

- Reduce dangers from earthquakes and other hazards
- Upgrade vocational, library, science and computer classrooms,
- Provide disabled access,
- Repair inadequate lighting, heating, plumbing and electrical systems.

Due to the issues previously noted, we were unable to fully perform the audit procedures in the K-12 Audit Guide - CCR, Title 5, Section 19832 (a) (2) that require the auditor to:

(2) Select a sample of expenditures and verify that bond proceeds were expended only for the purpose(s) for which the bonds were issued, as specified in the official statement or statements of bond indenture submitted by the school district governing board to the county auditor or county treasurer.

As the district did not record expenditures in the Building Fund to a specific bond issuance, we included a scope limitation in the report on State Compliance for state school construction funds – school district bonds.

This is a repeat of prior year Findings 06-49 and 03-62.

Recommendation

The district should:

- Separate bond balances by bond measure and series issuance;
- Maintain separate accounts and resource codes to identify and track proceeds and expenditures for bond measures and series issuances, in order to avoid inappropriate expenditures or misappropriations of bond fund proceeds;
- Ensure that bond fund proceeds are accounted for according to the requirements of CSAM, with the correct SACS account code structure; and
- Record bond issuance costs with the correct SACS account code structure.
- Replace \$4,374,827 of Building Fund 21 bond proceeds used for non-compliance expenditures and code the funds with the proper resource code.

District's Response

OUSD disagrees with the finding and has legal opinions to support this position.

SCO Comment

The District provided a copy of a legal opinion, dated January 17, 2005, from Orrick, Herrington & Suttcliffe on July 26, 2009.

The legal opinion states, in part, that:

If bond proceeds are used to fund a portion of the annual contribution, or occasional annual contributions, to the restricted Ongoing and Major Maintenance Account, then such funds must be segregated within the account and tracked in such a way as to ensure that bond funds will only ever be applied to those projects constituting real property

improvements – whether “major maintenance” or deferred maintenance projects – and never to projects for the “regular maintenance and routine repair” of State-funded facilities.

We have also concluded that the District’s bond funds authorized under Measure C and Measure A may be used to fund the District’s required annual match for purposes of receiving State deferred maintenance grants, so long as the district can ensure that the bond proceeds will only be spent for “improvement of real property” projects within the meaning of relevant bond law.

However, we expect that both the program requirements as well as the district’s own maintenance program needs will likely mean that a significant portion of the Ongoing and Major Maintenance Account will be applied to “routine,” “ongoing,” “continuing,” or “regular” maintenance of school buildings. This portion of the restricted account must not be funded from bond proceeds.

We suppose instead that the State Board must have intended by its regulations that the deposit to the deferred maintenance fund must derive from moneys *not otherwise restricted* from being spent for the purposes to which the deferred maintenance fund is legally required to be applied. In other words, the District cannot be authorized to deposit, for example, developer fees, insurance reserves, or class-size reduction funds into the deferred maintenance fund, as those moneys would be restricted to purposes for which the deferred maintenance fund cannot be applied.

The legal opinion does not support the District’s position that bond expenditures can be posted to resource 0000 (unrestricted) or used for salary and employee benefits. The legal opinion indicates that bond proceeds must be segregated and tracked. If bond expenditures are not posted to a specific bond issue it is not possible to determine the balance of the proceeds remaining or that all bond expenditures were allowable activities (i.e. the purchase and improvement of real property) and not applied to “routine,” “ongoing,” “continuing,” or “regular” maintenance of school buildings.

The legal opinion supports the District’s position that the transfer of bond proceeds to the Deferred Maintenance Fund is appropriate only if the bond proceeds are segregated and tracked to ensure that the proceeds are expended for the improvement of real property as major maintenance or deferred maintenance projects.

Our review disclosed that the District did not identify the funds transferred into the Deferred Maintenance Fund as bond proceeds transferred from the Building Fund. In addition, the District did not identify which expenditures were paid with the bond proceeds. As a result, the District cannot ensure that the bond proceeds are only expended for improvement of real property.

The legal opinion does not support the District's position that developer fees from the capital facilities fund can be transferred to the building fund. The legal opinion indicates that developer fees are restricted for purposes specified in *Government Code* sections 65970-65981.

The legal opinion does not address expenditures or fund requirements for the County School Facilities Fund nor does it address the current year school facilities apportionment being used to pay for expenditures made in prior years.

This has been an ongoing issue since FY 2002-03. Since the District cannot or will not identify how the bond proceeds were used, it should transfer \$2,060,010, plus interest, back to the Building Fund from the Deferred Maintenance Fund. Transfers made in prior years should also be reversed.

On October 15 and 16, 2009, the District provided additional finding responses and responses to SCO Comments. These additional responses are included as an attachment at the end of this report.

Our finding remains unchanged.

**FINDING 07-36—
CalSTRS membership
forms not retained
(30000) (40000)
(41000)**

The district does not maintain a written acknowledgment by the employee as evidence that the California State Teachers Retirement System (CalSTRS) membership form is provided to newly hired eligible employees within 30 days of the date of hire. We selected a sample of three newly hired substitute teachers and requested copies of their membership election forms. The district could not provide a copy of the form for any of the three substitute teachers.

Education Code section 22455.5 (b) states:

Employers shall make available criteria for membership, including optional membership, in a timely manner to all persons employed to perform creditable service subject to coverage by the Defined Benefit Program, and shall inform part-time and substitute employees, within 30 days of the date of hire, or by March 1, 1995, whichever is later, that they may elect membership in the plan's Defined Benefit Program at any time while employed. Written acknowledgment by the employee shall be maintained in employer files on a form provided by this system.

Recommendation

The district should implement a policy to retain a written acknowledgment by the employee, on the appropriate form, to evidence that the CalSTRS membership form is provided to new employees within 30 days of the date of hire, as required.

District's Response

In 2009 the Human Resources Department implemented the practice of placing copies of the completed California State Teachers Retirement System (CALSTRS) membership forms in the personnel files of newly hired substitute teachers.

**FINDING 07-37—
Non-compliant
Proposition 20
expenditures
(30000) (40000)**

Our review of Proposition 20 Lottery Fund expenditures disclosed that \$108,740, or 7% [(\$58,796 + \$49,944) ÷ \$1,553,118], of the total expenditures from the district's Proposition 20 restricted Lottery allocation were not used for instructional materials as defined in subdivisions (h), (m), or (n) of Education Code section 60010.

We tested 14 sample expenditures and noted that five expenditures were not for instructional materials items as defined in subdivisions (h), (m), or (n) of Education Code section 60010. The following unallowable expenditures, amounting to \$58,796, or 20.52%, of the expenditures tested, were noted:

Reference	Description	Amount
PO #718111	Site license	\$ 11,339
PO #714405	Furniture	10,769
PO #712744	Split storage cabinet	15,974
PO #710825	No description	5,000
MP #704340	13 OptiPlex 745 Desktop	15,714
		<u>\$ 58,796</u>

In addition, we reviewed a list of all Proposition 20 (resource code 6300) expenditures and noted expenditures for refreshments, equipment, computers, and other items amounting to \$49,944 or 3.22% of the total expenditures.

Education Code section 60010 states:

For the purpose of this part, the following terms have the following meanings unless the context in which they appear clearly requires otherwise. . .

- (h) "Instructional materials" means all materials that are designed for use by pupils and their teachers as a learning resource and help pupils to acquire facts, skills, or opinions or to develop cognitive processes. Instructional materials may be printed or nonprinted, and may include textbooks, technology-based materials, other educational materials, and tests.
- (m) "Technology-based materials" means those basic or supplemental instructional materials that are designed for use by pupils and teachers as learning resources and that require the availability of electronic equipment in order to be used as a learning resource. Technology-based materials include, but are not limited to, software programs, video disks, compact disks, optical disks, video and audio tapes, lesson plans, and data bases. Technology-based materials do not include the equipment required to make use of those materials.
- (n) "Test" means any device used to measure the knowledge or achievement of students.

This is a repeat of prior year Finding 06-50.

Recommendation

The district should ensure that Proposition 20 Lottery funds are spent for allowable materials or activities by:

- Complying with all provisions of Education Code section 60010;
- Implementing procedures whereby the program administrator reviews and approves all expenditures of Proposition 20 Lottery funds, resource code 6300;
- Reviewing all Proposition 20 purchases and journal entries for fiscal year 2006-07; and
- Reimbursing the program for all non-compliant purchases.

District's Response

The District developed and implements an improved policy for invoice authorization for federally funded programs for approving invoices for payment by authorized staff. The authorization process includes the following processes and procedures:

- Authorized individuals for each federally funded program are identified at the beginning of each school year for the approval process. These authorized approvers are identified in the IFAS accounting software approval processes and as authorized signers for specific supporting documents. These individuals are reported to the auditors during the audit review.
- The authorized individuals review each transaction and supporting documentation to ensure that the expenditure is compliant for a specific funding source.
- Accounts Payable staff does not pay invoices without authorized signer documentation.
- California Department of Education program leadership continues to be consulted on further clarification on the compliant use of funds for specific resources.

OUSD is committed to the process of continuous review and improvement of its systems of procurement and payment in order to ensure the compliant use of funds. These improved processes will ensure appropriate audit documentation for expenditures.

**FINDING 07-38—
School Accountability
Report Card (SARC)
reporting inaccuracies
(30000) (40000)
(71000) (72000)**

We selected ten schools to test the disclosure adequacy of the contents of the School Accountability Report Cards (SARC) regarding complaint data and information reported in the interim evaluation instruments. We also tested for accuracy of teacher misassignments and vacancies reporting.

The School Accountability Report Cards do not accurately report the condition of the school sites that we reviewed. In addition, we were unable to determine the accuracy of the reported misassignments and vacancies.

We compared the interim evaluation instruments (IEI), which are evaluations of the school sites' conditions conducted by individuals independent of the school district, to the SARC reports. The SARC grades facility conditions and their repair status, and should include the deficiencies noted from the IEI's. We noted the following discrepancies in comparing deficiencies noted on the IEI's with deficiencies stated on the SARC reports:

School Site	IEI Deficiencies	SARC Deficiencies	Variance	Additional Comments
Allendale Elementary	14	1	(13)	The deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Lakeview Elementary	14	3	(11)	The deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Parker Elementary	12	9	(3)	The deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Claremont Middle	18	9	(9)	The SARC reported 1 of the 18 deficiencies in the incorrect category, creating a false Repair Status for the category in which the deficiency should have been reported. In addition the deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Cole Middle	13	6	(7)	The deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Havenscourt	13	8	(5)	This site was shared by two different schools; ROOTs International Academy School and Coliseum College Prep Academy School. The deficiencies stated for Havenscourt were only reported on ROOTs International Academy School's SARC. 2 of the 13 deficiencies were reported in the incorrect categories, creating a false Repair Status for the categories in which the deficiencies should have been reported. In addition, the deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Leadership Prep High	12	8	(4)	The SARC reported 1 of the 12 deficiencies in the incorrect category, creating a false Repair Status for the category in which the deficiency should have been reported. In addition, the deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.

Oakland High	13	12	(1)	The SARC reported 1 of the 13 deficiencies in the incorrect category, creating a false Repair Status for the category in which the deficiency should have been reported. In addition, the deficiencies reported in the IEI are not reflected in the Repair Status in the SARC.
Lincoln Elementary	Not Required	Not Required	N/A	Comparison not performed. Interim Evaluation Instruments not required for school site.
Think College Now	Not Required	Not Required	N/A	Comparison not performed. Interim Evaluation Instruments not required for school site.
Totals	109	56	(53)	

As noted in the chart above, IEIs were not provided for two of the ten sites requested (Lincoln Elementary and Think College Now). Interim evaluation instruments are not required for school sites that are not in the bottom three deciles of test scores in the Academic Performance Index (API). These two sites were above the range requirement.

In the area of misassignments and vacancies, the following are the number of misassignments and vacancies reported on the SARC reports for the schools reviewed:

School Site	Misassignments of Teachers of English Learners	Teacher Misassignments for other than English Learners	Vacant Positions
Allendale Elementary	0	1	0
Lakeview Elementary	0	0	0
Parker Elementary	1	1	0
Claremont Middle	8	5	17
Cole Middle	1	0	0
Havenscourt	7	0	0
Leadership Prep High	7	0	0
Oakland High	25	3	0
Lincoln Elementary	0	0	0
Think College Now	1	1	0
Totals	50	11	17

We were provided with the Williams Complaint Form for Oakland High School but not for any of the remaining nine out of ten schools selected for testing. Therefore, we were unable to verify the accuracy of the number of teacher vacancies and misassignments reported on the SARC reports for each of the remaining 9 schools.

According to the Williams Complaint Forms provided for Oakland High, the district overstated the number of misassignments of teachers of English learners by 17, and understated the number of teacher misassignments for other than English learners by 8, and the number of vacant teacher positions by 10.

California Education Code section 33126(b)(9) states:

- (b) The school accountability report card shall include, but is not limited to, assessment of the following school conditions:
 - (9) Safety, cleanliness, and adequacy of school facilities, including any needed maintenance to ensure good repair as specified in Section 17104, Section 17032.5, subdivision (a) of Section 17070.75, and subdivision (b) of Section 17089.

California Education Code section 33126(b)(5) states:

- (b) The school accountability card shall include, but is not limited to, assessment of the following school conditions:
 - (5) The total number of the school's fully credentialed teachers, the number of teachers relying upon emergency credentials, the number of teachers working without credentials, any assignment of teachers outside their subject areas of competence, misassignments, including misassignments of teachers of English learners, and the number of vacant teacher positions for the most recent three-year period.
 - (A) For purposes of this paragraph, "vacant teacher position" means a position to which a single-designated certificated employee has not been assigned at the beginning of the year for an entire year or, if the position is for a one-semester course, a position of which a single-designated certificated employee has not been assigned at the beginning of a semester for an entire semester.
 - (B) For purposes of this paragraph, "misassignment" means the placement of a certificated employee in a teaching or services position for which the employee does not hold a legally recognized certificate or credential or the placement of a certificated employee in a teaching position that the employee is not otherwise authorized by statute to hold.

Good business practices require that the district retain documentation to support the School Accountability Report Cards.

This is a partial repeat of prior year Finding 06-51.

Recommendation

The district should implement a review process to:

- Ensure that the information reported in the SARC is complete and accurate, and
- Maintain documentation that supports the information reported in the SARC.

District's Response

The deficiencies in the IEI report for 2007 were not reflected in the School Facilities Good Repair Status section of the 06-07 SARC since the SARCs for the 2006-07 year were created in the spring of 2008. The 18 month gap is due to the fact that the CDE only releases the SARC templates to the districts after the school year has ended and the test results have been released. Additionally the CDE set a deadline for the posting of the SARCS to March of the following year. By then noted repairs such as *Gas Leaks* or *Broken windows* had been addressed and new findings were recorded in the current school year.

Subsequently, in 08-09 the CDE changed this format, to more accurately report on current facility issues. The CDE SARC template now stipulates that the report for Facilities reflect the conditions of the current year. For example, the 2008-09 SARCs School Repair Status section is now based on the 09-10 status of the School Facility Good Repair Status section, and aligns with the Williams 09 report. In addition, OUSD put further systems in place to ensure there was coordination between the Facilities Department, the IEI (Williams) report and the information in the School Facility Good Repair Status section of the SARCs.

SCO Comment

The district's response does not address why the teacher misassignments and vacancies were not accurately reported. The SARCs did not accurately report facility conditions and their repair status.

The district is not meeting its obligation to provide accurate information in the SARC reports to the public.

Our finding remains unchanged.

**FINDING 07-39—
Deficiencies in class
size reduction (CSR)
records
(30000) (40000)**

We recalculated the Form J-7 CSR prepared by the district and determined that the form did not accurately calculate the total number of eligible pupils. We determined that the district understated the total number of eligible students by one, amounting to \$1,024, on the Form J-7 CSR furnished to the California Department of Education (CDE) because it did not accurately calculate the total eligible pupil per class for Section E: Combination Classes. The variance occurred because the CDE template the district used did not accurately calculate the column of rounded numbers. The CDE instructs preparers to use no decimals or fractions. We recalculated the total eligible pupil per class for Section E: Combination Classes on the Form J-7 CSR and determined that the district had 1,191 eligible pupils in combination classes; however the template (provided by the CDE) calculated 1,190 eligible pupils. We later determined that the information reported on the Form J-7 CSR was inaccurate.

In addition, the district's Form J-7 CSR was not supported by contemporaneous records. We summarized the average class size for all classes participating in the CSR program, as listed on the district's Average Class Size by Teacher Report, and compared the recalculated total eligible pupils to the total eligible pupils reported on the district's Form J-7 CSR. We noted a total overstatement of 48 pupils, which amounts to \$49,152 in excess funding received by the district. The 48-pupil variance resulted because:

- 4th grade students are not eligible to participate in the K-3 CSR program. However, the district included two 4th graders on the J-7 CSR form. Two sites, Allendale and Grass Valley, each reported a 4th grade student for funding. As a result, the number of eligible students participating in the CSR program reported on the J-7 CSR form was overstated by 2.
- Special education classes are not eligible to participate in the K-3 CSR program. However, the district included a special education class, with an average class size of two students, on the J-7 CSR form. As a result, the number of eligible students participating in the CSR program reported on the J-7 CSR form was overstated by 2.
- Rounding errors at three sites resulted in an overstatement of five students.
- An overstatement of 39 pupils could not be explained by the district.

In addition, the district's calculation of the average class size for the classes participating in the class size reduction program was not supported by attendance records. We re-calculated an average class size for the 12 sampled classes using enrollment information for 15 sample days. We that noted 1 of the 12 sample classes tested over-reported average enrollment by three students. The district reported the average class size to be 18.76, rounded up to 19. However, we calculated the average size to be 20.92. Therefore, the class is eligible only for reduced CSR funding. ($20 \times 80\% = 16$ students). The district's Form J-7 CSR was overstated by three students, which amounts to a reduction in apportionment of \$3,072 ($3 \times \$1,024$).

The district did not maintain accurate and complete attendance and/or enrollment records. During the testing for class size reduction we noted the following deficiencies in the records:

- A scantron was not provided for Teacher 222 for the week of December 4, 2006.
- Two scantrons for Teacher 222 for the same two-week period of January, 22, 2007, and January 29, 2007, reported different attendance/absences information but did not affect the number of students enrolled for CSR average class size calculation.
- During our recalculation of the district's eligible classes/pupils, we noted that 20 of the school sites reported unassigned students in classes with average class sizes ranging from one to four students. The district's reports indicated an average class size of 29 students was not assigned to classes/teachers. The classes/students are classified as ineligible and were not included in the total students claimed for CSR funding. We requested that the district identify the unassigned students and their associated class. The district researched the students at one of the 20 sites, Bridges At Melrose, and identified the five unassigned students that totaled an average class size of 1.64. The five students were enrolled in three classes. Three of the five students were assigned to one teacher. However, the average class size for the teacher did not change when the district reran the Average Class Size by Teacher report for the Bridges at Melrose site. The five unassigned students were still not included in the average class size of any class.

California Education code section 52124(e) states:

Except for a school district participating pursuant to subdivision (h) of Section 52122, the amount deducted pursuant to subdivision (d) shall be adjusted as follows:

- (1) Twenty percent of the amount to which the district would otherwise be eligible for each class for which the annual enrollment determined pursuant to Section 52124.5 is greater than or equal to 20.5 but less than 21.0.
- (2) Forty percent of the amount to which the district would otherwise be eligible for each class for which the annual average enrollment determined pursuant to Section 52124.5 is greater than or equal to 21.0 but less than 21.5.
- (3) Eighty percent of the amount to which the district would otherwise be eligible for each class for which the annual average enrollment determined pursuant to Section 52124.5 is greater than or equal to 21.5 but less than 21.9.
- (4) The amount deducted pursuant to subdivision (d) for each class for which the annual average enrollment determined pursuant to Section 52124.5 is greater than or equal to 21.9 shall be the amount of funding the district received for the class pursuant to this chapter.

California Department of Education – Form No. J-7CSR (06-07) – Special Instructions, General Instructions, Step 11, Rounding and decimals states:

Please report whole numbers only -- no decimals or fractions or “hash” marks. Use the following rounding convention to determine the size of a class to be reported on this form: 20.44 or lower rounds to 20; 20.45 and above rounds to 21.

Good internal controls and prudent business practices require the district to maintain adequate documentation and properly record and report calculations.

This is a repeat of prior year Findings 05-31 and 04-55.

Recommendation

The district should:

- Submit a revised Form J-7 CSR to the California Department of Education with accurate information;
- Establish procedures to ensure that sites retain complete and accurate records to support attendance and enrollment information reported;
- Review calculations to ensure that information reported is accurate before submitting the claim to the California Department of Education; and
- Repay the \$52,224 CSR funding received as a result of the overstated eligible students.

District's Response

OUSD continues to strengthen its internal controls at school sites to ensure that all relevant attendance documents are generated, reviewed, approved and maintained in an organized manner. Fiscal Department staff review enrollment data on an ongoing basis to ensure that all students are assigned to classrooms. All attendance documents and records are reconciled prior to being reported to CDE.

Technical Services Department Staff provide continuous training classes and materials for school attendance staff.

OUSD has expanded training of school site staff to ensure proper attendance recording and reconciliation. Financial Services Staff continue to monitor attendance accounting throughout the year to ensure staff at school sites are correctly reporting attendance and enrollment.

OUSD formed the Data and Student Quality Committee to identify and address issues involving attendance accounting. The committee meets on a regular basis.

In 2009, OUSD certified its Attendance Software System and Attendance Process with CDE.

OUSD continues to improve its attendance procedures as schools implement the use of the AERIES Browser Interface (ABI) system. This online system enables teachers to input attendance data directly in AERIES. This system also improves the timeliness and accuracy of attendance monitoring.

Fiscal Department staff review AERIES data to ensure student assignments are continuous and accurate.

OUSD currently reviews the Class Size Reduction (CSR) K-3 data report and verifies accuracy before submitting the J-7 CSR report to the CDE.

When audit is finalized and reported OUSD will submit amended J-7 CSR report to CDE.

**FINDING 07-40—
No class size reduction
(CSR) training policy
(30000) (40000)**

The district does not have a written policy requiring staff to receive appropriate training to maximize the educational advantages of the CSR program. However, the district has provided evidence that, beginning in 2003, all certificated teachers received the Beginning Teachers Support and Assessment (BTSA) training and new teachers received the BTSA training. The BTSA training meets the training requirements for the CSR program (methods for providing individualized instruction; effective teaching, including classroom management, in smaller classes; identifying and responding to student needs; and opportunities to build on the individual strengths of students).

We made no disallowance, as teachers are receiving the required training.

Education Code section 52127(a) states, in part:

As a condition to receiving any apportionment pursuant to Section 51726, school districts shall have a staff development program that requires any certificated teacher who shall provide direct instructional services for a class participating in the school district's class size reduction program to receive the appropriate training necessary to maximize the educational advantages of class size reduction.

This is a repeat of prior year Finding 06-52.

Recommendation

The district should:

- Comply with Education Code section 52127 by developing a formal, written policy requiring that any certificated teacher providing direct instruction to a class in the CSR program receive the appropriate training necessary to maximize the educational advantages of the program; and
- Track all teachers who provide direct instruction in the CSR program to ensure that they receive the training.

District's Response

The OUSD Board of Education (BOE) has approved Board Policy (BP) 6152 which focuses on Class Size Reduction training for teachers (per the California State School Board Association (CSBA) template) and states that the number of students in a class may affect the extent to which teachers can identify and respond to individual student needs. The BP also addresses the full-time mainstreamed special education students' impact on determining class size, the schools' participation in the class size reduction program, and the schools' participation in the Morgan-Hart Class Size Reduction Act.

In September of 2007, OUSD updated Administrative Regulation (AR) 6151 pertaining to class size reduction per Education Code 52127 regarding Class Size Reduction Training. The AR stated that OUSD will ensure all teachers participating in class size reductions receive professional development that includes instructional strategies to

maximize the educational advantages of Class Size Reduction. This training includes methods for providing individualized instruction, effective teaching, including classroom management, in smaller classes; identifying and responding to student needs; and opportunities to build on the individual strengths of students.

AR 6151 fulfills the requirement for having a class size reduction training policy.

SCO Comment

The District did not have a written policy requiring CSR training for staff during the fiscal year ending June 30, 2007. The District updated AR 6151 in September of 2007, after June 30, 2007, as indicated in the District's response.

On October 15 and 16, 2009, the District provided additional finding responses and responses to SCO Comments. These additional responses are included as an attachment at the end of this report.

Our finding remains unchanged.

SECTION V—MISCELLANEOUS FINDINGS**FINDING 07-41—
Board minutes not
available to public
(30000) (60000)**

We reviewed the board minutes between July 1, 2006, and April 8, 2009, as available on the district’s Web site. Of the 112 Board of Education and State Administrator and/or Board of Education meetings that took place during this period, we noted the following discrepancies:

- Minutes for 31 meetings were not finalized and not available for public viewing. The oldest of these dated back to January 8, 2007.
- There were 15 instances in which the minutes were listed as not finalized, but were available for viewing and were not marked “draft.” The oldest of these dated back to November 15, 2006.
- There were five instances in which the meeting minutes were finalized, but could not be viewed or accessed on the district’s Web site. The oldest of these dated back to May 14, 2008.

Due to the discrepancies noted above, we were unable to determine if all minutes have been finalized and are accessible for review.

Education Code section 35145 states:

All meetings of the governing board of any school district shall be open to the public and shall be conducted in accordance with Chapter 9 (commencing with Section 54950) of Division 2 of Title 5 of the Government Code. All actions authorized or required by law of the governing board shall be taken at the meetings and shall be subject to the following requirements;

- (a) Minutes shall be taken at all of those meetings, recording all actions taken by the governing board. The minutes are public record and shall be available to the public.
- (b) An agenda shall be posted by the governing board, or its designee, in accordance with the requirements of Section 54954.2 of the Government Code. Any interested person may commence an action by mandamus or injunction pursuant to Section 54960.1 of the Government Code for the purpose of obtaining a judicial determination that any action taken by the governing board in violation of this subdivision or Section 35144 is null and void.

Recommendation

The district should ensure that all minutes are available to the public as required by Education Code section 35145.

District’s Response

Education Code section 35145 states that “Minutes shall be taken at all of those meetings, recording all actions taken by the governing board. The minutes are public record and shall be available to the public.” The District is fully legally compliant with this requirement excluding a narrative, which is not required. The District uses an on-line electronic Minutes system, which mirrors the posted Agenda items by meeting date. Each Legislative File fully reflects disposition or “record{s] all actions taken by the governing board” on a legislative proposal. The

electronic record for each proposal considered reflects the specific action taken, who moved and seconded the item and the votes of members thereof, if any, and the outcome, such as tabled, discussed, failed, passed. All records are sortable by meeting date, file type, action taken, etc. Each legislative file for a regular meeting reflecting its disposition is available 24 hours after the action. All such records, including the supporting documents for the last nine years through the last meeting held August 12, 2009 are on the world wide web at <http://ousd.legistar.com/Legislation.aspx> and available to the public. The full and complete record of each and every action of the Governing Board is electronically preserved. The District, having met the legal requirements of Education Code Section 35145 electronically, converts the electronically preserved record into the more traditional narrative form of Minutes.

SCO Comment

Education Code section 35145 requires that minutes, not legislative files, shall be made available to the public.

The District's response states that having met the legal requirements of Education Code Section 35145 electronically the District converts the electronically preserved record into the more traditional narrative form of minutes; however, the District's response does not explain why minutes to some meetings are not available to the public in narrative form.

The District's response states that a narrative form of all actions taken by the governing board is not required; however, the district does not cite criteria for the position that a narrative of the minutes are not required.

The finding remains unchanged.

Summary Schedule of Prior Audit Findings Year Ended June 30, 2007

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
FINANCIAL STATEMENT FINDINGS		
<u>Minimum Reserves</u>		
Finding 06-01—Minimum reserves not met The district did not maintain adequate General Fund reserves.	Partially implemented; Finding 07-01	District did not provide explanation
<u>Documentation</u>		
Finding 06-02—Documentation delay and inaccuracies The district did not provide accurate documents in a timely manner.	Not implemented; Finding 07-02 and 07-03	District did not provide explanation
<u>Capital Assets</u>		
Finding 06-03—Capital asset records incomplete and inaccurate The district's capital asset valuation report did not include all assets that were capitalized during the fiscal year. The capital asset valuation report did not reconcile with the unaudited actuals.	Not implemented; Finding 07-03, 07-04, and 07-10	District did not provide explanation
<u>Payroll</u>		
Finding 06-04—Payroll deficiencies The payroll expenses reported on the monthly and supplemental payroll reports did not support the amount reported in the unaudited actuals. The district did not include all bank account balances in the unaudited actuals.	Not implemented; Finding 07-03	District did not provide explanation
<u>Cash Accounts</u>		
Finding 06-05—Cash account deficiencies The district's cash balances in banks and cash in county treasury did not agree to the balances reported in the unaudited actuals. The district did not maintain a complete, accurate list of checking accounts.	Not implemented; Finding 07-03	District did not provide explanation
<u>Associated Student Body and Subsidiary Funds</u>		
Finding 06-06—Associated student body and subsidiary funds not presented and not audited The district did not provide financial data regarding its associated student body and subsidiary funds. The district did not present the funds in the financial statements as required by GAAP.	Not implemented; Finding 07-03 and 07-07	District did not provide explanation

¹ See Attachment 1.

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
<u>Revenue</u>		
Finding 06-07—Revenue unauditible The district did not accurately report money transfers. The district did not maintain accurate documentation of moneys received.	Not implemented; Finding 07-03	District did not provide explanation
<u>Accounts Receivable</u>		
Finding 06-08—Accounts receivable unauditible The district did not accurately accrue accounts receivable, monitor accounts receivable, or obtain proper approvals for writing off receivables.	Not implemented; Finding 07-03	District did not provide explanation
<u>Deferred Revenue</u>		
Finding 06-09—Deferred revenue unauditible The district did not provide sufficient documentation to support the amounts reported for deferred revenue in the unaudited actuals. The Form CAT did not contain information regarding deferred revenue carried forward from the prior year.	Not implemented; Finding 07-03	District did not provide explanation
<u>Purchasing</u>		
Finding 06-10—Internal control deficiencies over purchases The district did not provide accurate documentation to support purchases. The district documentation provided did not contain evidence of proper approval.	Not implemented; Finding 07-03	District did not provide explanation
<u>Accounts Payable</u>		
Finding 06-11—Accounts payable deficiencies Accounts payable was not audited due to deficiencies noted in Finding 06-04, and difficulty in determining the end of year balance.	Not implemented; Finding 07-03	District did not provide explanation
<u>Self-Insurance Fund</u>		
Finding 06-12—Self-Insurance Fund deficiencies The district recorded inappropriate expenditures to the Self-insurance fund.	Not implemented; Finding 07-03	District did not provide explanation
<u>Fund Balances Restatements</u>		
Finding 06-13—Fund balance restatement journal entries not supported by adequate documentation The district did not have documentation supporting balance restatements for the Self-Insurance and Building Funds.	Not implemented; Finding 07-03	District did not provide explanation

¹ See Attachment 1.

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
<u>Inadequate Controls</u>		
<p>Finding 06-14—Inadequate controls over due to/from account transactions</p> <p>The district did not liquidate prior-year loans between funds during the fiscal year 2005-06.</p>	Not implemented; Finding 07-03	District did not provide explanation
<u>Interfund Transfer Deficiencies</u>		
<p>Finding 06-15—Interfund transfer journal entries not supported by adequate documentation</p> <p>The district did not provide adequate documentation to support interfund transfers.</p>	Not implemented; Finding 07-03	District did not provide explanation
<u>Long-Term Liabilities</u>		
<p>Finding 06-16—Long-term liabilities understated</p> <p>The district understated the building and charter school revolving loans because the district did not provide documentation to support the balances in prior year audits.</p>	Not implemented; Finding 07-03	District did not provide explanation
<u>Long-Term Debt</u>		
<p>Finding 06-17—Long-term debt activity not recorded</p> <p>The district did not record long-term debt obligations associated with prior and current year bond issuance costs, current year accrued bond interest, general obligation bonds conversion entry adjustments, and \$6.5 million increase to general obligation bonds.</p>	Not implemented; Finding 07-03	District did not provide explanation
<u>Emergency Apportionment Loan</u>		
<p>Finding 06-18—Deficiencies in accounting for emergency apportionment loan</p> <p>The district did not make adjustments to the emergency apportionment loan balances after the loan was refinanced.</p>	Not implemented; Finding 07-03	District did not provide explanation
<u>Certificates of Participation</u>		
<p>Finding 06-19—Certificates of participation debt service payments not accurately reported</p> <p>The district incorrectly accounted for interest and service-charge expenses, and interest earned for certificates of participation. The district did not properly record activity with cash with fiscal agent, nor reconcile the cash with fiscal agent account.</p>	Not implemented; Finding 07-03	District did not provide explanation
<u>Capital Leases</u>		
<p>Finding 06-20—Documentation not provided for capital leases</p> <p>The district did not provide lease agreements to verify whether or not the district's leases were capital leases.</p>	Not implemented; Finding 07-03	District did not provide explanation

¹ See Attachment 1.

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
<u>Conversion Entries</u>		
Finding 06-21—Conversion entries not posted The district did not provide all necessary conversion entries.	Not implemented; Finding 07-03 and 07-05	District did not provide explanation
<u>Deferred Maintenance Grant</u>		
Finding 06-22—Deferred maintenance grant not properly matched The district did not properly match the share of interest given by the state.	Not implemented; Finding 07-03 and 07-06	District did not provide explanation
<u>County School Facilities Fund</u>		
Finding 06-23—County school facilities fund local match requirements not met The district did not expend the required 50% matching (state) funds from local resources for the County School Facilities Fund for new construction projects pursuant to Education Code section 17072.30, or 40% matching (state) funds from local resources for Modernization Projects pursuant Education Code section 17074.16.	Not implemented; Finding 07-03	District did not provide explanation
<u>Stores Inventory</u>		
Finding 06-24—Stores inventory overstated The district's stores inventory-food report did not support the amount reported in the unaudited actuals.	Not implemented; Finding 07-03 and 07-08	District did not provide explanation
<u>Bidding Process</u>		
Finding 06-25—Insufficient bidding documentation The district did not provide documentation that identified who opened the bids or the witnesses to the bidding process.	Not implemented; Finding 07-03	District did not provide explanation
<u>Construction Projects</u>		
Finding 06-26—Lack of approval and supervision of construction projects The district did not provide documentation to determine whether the district obtained approval and supervision for each project from the Division of State Architects (Department of General Services).	Not implemented; Finding 07-03	District did not provide explanation
FEDERAL AWARD FINDINGS		
<u>Federal Program Expenditures</u>		
Finding 06-27—Internal control deficiencies over federal program expenditures The district did not properly authorize expenditures for payment and insufficient records were maintained for the National School Lunch and Title I. The district did not properly authorize expenditures for Special Education.	Not implemented; Finding 07-09	District did not provide explanation

¹ See Attachment 1.

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
<u>Time Certifications</u>		
<p>Finding 06-28—Inadequate employee time certification records</p> <p>The district did not maintain employee time certification forms for any of the employees funded under any of the major federal programs.</p>	<p>Not implemented; Finding 07-12</p>	<p>District did not provide explanation</p>
<u>National School Lunch Program</u>		
<p>Finding 06-29—National school lunch program: expenditure and reimbursement claim internal control weaknesses</p> <p>The district had the following NSLP deficiencies: did not encumber sufficient funds, purchase orders made after expenditures were paid, expenditures encumbered in incorrect fiscal year, an expenditure paid to different vendor than that shown on the purchase order, expenditures paid from statement rather than actual invoices, missing purchase order, purchase order without reference number, monthly cafeteria meal count summary balances did not trace to Monthly Edit Check summaries and contained meal count report totals for an elementary school that did not agree to the site’s edit check totals. Snacks were being served before and after the program start and end date. Snacks were reported for reimbursement at a site where there was no snack program.</p>	<p>Partially implemented; Finding 07-20</p>	<p>District did not provide explanation</p>
<u>National School Lunch Program</u>		
<p>Finding 06-30—National school lunch program: discrepancies in reconciling reimbursement claims</p> <p>Reimbursement claims for the district’s national school lunch program did not reconcile with supporting documentation.</p>	<p>Not implemented; Finding 07-20</p>	<p>District did not provide explanation</p>
<u>National School Lunch Program</u>		
<p>Finding 06-31—National school lunch program: eligibility verification weaknesses</p> <p>The district did not properly maintain documentation of eligibility applications</p>	<p>Not implemented; Finding 07-19</p>	<p>District did not provide explanation</p>
<u>National School Lunch Program</u>		
<p>Finding 06-32—NSLP: Insufficient documentation</p> <p>Records to support meal reimbursement claims were not properly maintained.</p>	<p>Not implemented; Finding 07-20</p>	<p>District did not provide explanation</p>
<u>Special Education</u>		
<p>Finding 06-33—Special education: IEP records not properly maintained</p> <p>The district did not properly maintain the individualized education programs for special education students.</p>	<p>Implemented</p>	

¹ See Attachment 1.

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
<u>Title I</u>		
<p>Finding 06-34—Title I: Highly qualified teacher discrepancies</p> <p>School sites within the district, receiving Title I funds, did not have highly qualified teachers instructing core academic classes.</p>	Not implemented; Finding 07-16	District did not provide explanation
STATE AWARD FINDINGS		
<u>Average Daily Attendance</u>		
<p>Finding 06-35—Variances in the reconciliation of reported attendance and district summaries</p> <p>There were discrepancies in the district’s average daily attendance reported to CDE for both P-2 and Annual Reports of Attendance.</p>	Partially implemented; Findings 07-21, 07-22, and 07-26	District did not provide explanation
<u>Average Daily Attendance</u>		
<p>Finding 06-36—Variances in the district’s attendance summaries and school site summaries</p> <p>None of the 12 school sites’ attendance summaries reviewed reconciled to the district summary. The district under-reported attendance by 53 ADA, or \$271,688, for independent study.</p>	Partially implemented; Findings 07-21, 07-22, and 07-26	District did not provide explanation
<u>Average Daily Attendance</u>		
<p>Finding 06-37—Attendance improperly reported by district</p> <p>School sites did not properly report attendance for reasons including; teacher errors, attendance reporting system errors, and absences were included for apportionment. In addition, teachers did not consistently sign scantrons.</p>	Not implemented; Findings 07-21, 07-22, and 07-26	District did not provide explanation
<u>Teachers Credentials</u>		
<p>Finding 06-38—Non-compliance with teachers credentials’ requirements</p> <p>Teachers did not possess valid credentials or were not adequately credentialed.</p>	Not implemented; Finding 07-24	District did not provide explanation
<u>Kindergarten Continuation</u>		
<p>Finding 06-39—Kindergarten continuation forms not provided</p> <p>The district did not provide a continuation form for two out of nine students reviewed</p>	Not implemented; Finding 07-25	District did not provide explanation

¹ See Attachment 1.

<u>Prior Year Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented¹</u>
<u>Independent Study</u>		
<p>Finding 06-40—Independent study attendance records, agreements and work samples deficient or not provided</p> <p>Documentation provided for independent study did not support the attendance reported for independent study. The district did not provide all independent study agreements, work samples, and scantrons or registers that were requested.</p>	Not implemented; Finding 07-26	District did not provide explanation
<u>Continuation Education Attendance Reporting</u>		
<p>Finding 06-41—Deficiencies in attendance recording and reporting; scope limitation in testing Continuation Education</p> <p>The district over-reported attendance by one day. The Aeries attendance accounting system did not credit attendance hours in increments indicated by the bell schedule. The district would not provide written confirmation as to whether it had continuation education pupils enrolled in work experience education.</p>	Not implemented; Finding 07-28	District did not provide explanation
<u>Adult Education Reporting</u>		
<p>Finding 06-42—Adult Education program attendance reporting deficiencies and program non-compliance</p> <p>The district’s monthly attendance totals did not agree with the district’s hourly attendance reports. Teachers did not sign all scantrons. Concurrent student applications not properly completed.</p>	Not implemented; Findings 07-29 and 07-30	District did not provide explanation
<u>Instructional Minutes</u>		
<p>Finding 06-43—Insufficient grade 4-5 instructional minutes</p> <p>The district’s instructional minutes were erroneously calculated resulting in two school sites with deficient minutes.</p>	Not implemented; Finding 07-31	District did not provide explanation
<u>Morgan-Hart Funding</u>		
<p>Finding 06-44—Non-compliance with and errors in funding claim for program to reduce class size in two courses in grade 9</p> <p>The district’s claim data supporting the Morgan-Hart program and supporting documentation for individual classes participating in the program were erroneous.</p>	Not implemented; Finding 07-32	District did not provide explanation

¹ See Attachment 1.

Prior Year Finding/Recommendation	Current Status	District Explanation if Not Implemented ¹
<u>Instructional Materials Meeting and Documentation</u>		
<p>Finding 06-45—Non-compliance with instructional material program requirements</p> <p>The district failed to hold the public hearing regarding the sufficiency of instructional materials within the specified period of time, and during a time in which teachers would be encouraged to attend. The district did not provide evidence regarding the governing board providing required information regarding insufficient materials to classroom teachers and the public.</p>	Not implemented; Finding 07-33	District did not provide explanation
<u>Instructional Materials Scope Limitation</u>		
<p>Finding 06-46—Scope limitation in testing IMFRP expenditures; no evidence provided that the governing board adopted grades 9-12 instructional materials listing</p> <p>The district did not separate the instructional materials expenditures for K-8 and 9-12. The district did not provide evidence that the state administrator or advisory board adopted a list of instructional materials for grades 9-12. The district instructional materials expenditures contained exceptions for purchases of materials not approved and improper transfer of instructional materials funds.</p>	Partially implemented; Finding 07-33	District did not provide explanation
<u>Administrative Employees to Teachers Ratio</u>		
<p>Finding 06-47—Certain categories of employees inappropriately included in ratio of administrative employees to teachers</p> <p>The district inappropriately included all teachers in its ratio calculation without regard to whether the teachers were classroom-based or non-classroom-based.</p>	Not implemented; Finding 07-34	District did not provide explanation
<u>Gann Limit Calculation</u>		
<p>Finding 06-48—Inaccurate data used in Gann limit calculation</p> <p>The district’s Gann limit calculation is based on incorrect data. The district did not update and revise the 2004-05 form used in the current year’s calculation.</p>	Implemented	
<u>Construction Bond Proceeds</u>		
<p>Finding 06-49—Commingling of school construction bond proceeds and project expenditures; scope limitation in testing school construction funds</p> <p>The district inappropriately commingled the proceeds of bond fund measures and did not assign the expenditure of those funds to a specific bond measure or issuance.</p>	Not implemented; Finding 07-35	District did not provide explanation

¹ See Attachment 1.

<u>Prior Year Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented¹</u>
<u>Proposition 20 Lottery Fund</u>		
<p>Finding 06-50—Non-compliant Proposition 20 Lottery Fund expenditures</p> <p>82.75% of the expenditures reviewed were not in compliance with the purpose for the funds. The district did not provide documentation for journal entries reviewed.</p>	Not implemented; Finding 07-37	District did not provide explanation
<u>School Accountability Report Card</u>		
<p>Finding 06-51—School Accountability Report Card (SARC) reporting errors</p> <p>The School Accountability Report Card contained information that did not agree with the interim evaluation instrument, the summary of compliant data for various school sites, or the 2005-06 Board Minutes resolutions.</p>	Not implemented; Finding 07-38	District did not provide explanation
<u>Class Size Reduction</u>		
<p>Finding 06-52—Class size reduction (CSR)—no training policy</p> <p>The district did not have a written policy requiring staff to receive appropriate training to maximize the educational advantages of the CSR program.</p>	Not implemented; Finding 07-40	District did not provide explanation
<u>Charter Schools</u>		
<p>Finding 06-53—Lack of fiscal monitoring and oversight of district’s charter schools</p> <p>The district did not provide evidence that fiscal monitoring over charter schools were performed. The district did not provide audit reports for all of the charter schools. The audit reports that were received did not contain or contained insufficient evidence that the audit reports were reviewed by the district.</p>	Not implemented; Finding 07-03	District did not provide explanation

¹ See Attachment 1.

Attachment I

District Responses

Attachment I includes additional finding responses and responses to SCO Comments that were provided by the District as part of the Findings and Recommendations via email on October 15, 2009.

The district provided separate email responses to Findings 07-06 and 07-35 on October 16, 2009.

We have inserted the district's responses to Finding 07-06 and 07-35 into the document provided by the district on October 15, 2009. The district's response to Finding 07-06, contains attachments A and B.

As requested by the district, we added its additional responses to Findings 07-12 and 07-38 in the Findings and Recommendations.

All of the district's responses and comments have been included in this report.

OUSD responses to 2006-2007 SCO Audit final draft

The following are OUSD responses and/or modifications to the final draft form of the audit:

Received from district on October 16, 2009.

OUSD Response: Finding 07-06 – Deferred maintenance fund not properly matched. OUSD would again reference the Orrick legal opinion (dated January 17, 2005) presented previously that the transfer of bond proceeds to the Deferred Maintenance Fund is appropriate only if the bond proceeds are segregated and tracked to ensure that the proceeds are expended for the improvement of real property as deferred maintenance projects. The legal opinion further states that, “Since bond funds may lawfully be spent for many, if not all, of the same purposes for which the deferred maintenance fund is required to be used, bond law does not prohibit the application of bond proceeds to meet the deferred maintenance match. The deferred maintenance program law also does not limit the application of bond proceeds. Section 17582 provides that “funds deposited in the district deferred maintenance fund may be received from any source whatsoever.

Since both bond measure A and measure C were commingled in fund 21 and the Orrick legal opinion has explained that both bond measures were essentially for the same purpose we argue that there is no need to identify funds in fund 21 as bond proceeds.

Please see the attachments:

- Schedule “A” which shows the transfer of \$2,091,784.00 from building fund 21 to the deferred maintenance account.
- Deferred Maintenance Projects 06-07.

Received from district on October 15, 2009.

Please add to OUSD response: Finding 07-12 – Inadequate employee time certification records. OUSD is working with the California Department of Education School Fiscal Services Division to develop a plan of action that addresses this finding.

Received from district on October 15, 2009.

OUSD response to the SCO Comment: Finding 07-15 – Title I – Private school allocation and expenditure documentation deficiencies. OUSD does not use the word “ignored” anywhere in its response to the finding – this word is only used by the SCO. The OUSD response clearly indicates that OUSD is fully committed to ensuring that all program requirements are met. This commitment is made evident by OUSD taking steps to address the deficiencies cited in the finding a full year ahead of the auditors bringing it to our attention.

Received from district on October 15, 2009.

OUSD response to the SCO Comment: Finding 07-33 – Expenditures not in compliance with instructional materials program requirements. Finding 07-36 originally found the Oakland Unified School District liable for \$1,600,061 in unallowable costs claimed for instructional materials purchased by the District during the 06-07 fiscal year. Pursuant to this initial finding, additional supporting documentation was provided to the State Controller’s Office resulting in a reduced finding of approximately \$400,000 in unallowable costs claimed for instructional materials purchased as the items cited were shown to be approved adopted textbooks and/or ancillary materials. The District contends that the now reduced disallowed expenditures would be even further reduced with additional time to provide

copies of the invoices for the missing items. Furthermore, the use of warrant and ISBN numbers for identifying individual items makes the process of locating specific charges extremely challenging given the volume of data and variation in format from worksheet to worksheet. In many cases, the disallowed items were actually included in the original adoption as part of the publisher's gratis material provided with classroom sets of textbooks. During the 06-07 school year, the District sought to replace items that were missing or damaged and that were previously part of the district-wide adoption. These items are specific California adoptions approved by the State Board of Education and the items in question should fall under the section 60010 of the California Education Code. Subsequent communication proved confusing given the various identifiers used for the review of items along with the interpretation of current and past adoptions in the various subjects at the various grade levels.

In conclusion, it is the contention of this office that clarification of the specific items being disallowed would enable a more expedient retrieval of these files and that this would result in an even further reduction in the non-compliant findings.

OUSD has implemented a system of purchasing instructional materials (textbooks) that ensures that all textbooks purchased by the district meet program requirements.

Received from district on October 16, 2009.

OUSD response: Finding 07-35 – Bond Expenditures not uniquely identified; scope limitation in testing school construction funds

This is the OUSD response to the SCO Comment for finding 07-35:

OUSD continues to maintain our legal right to support costs associated with the Capital Program through the use of bond funds. Those employee salary and benefits paid out of the bond funds are paid to staff who have the singular responsibility of managing and performing tasks uniquely related to the OUSD Capital Program.

OUSD employees working on non-capital, non- bond related projects are not funded out of the bond program; they are paid from the OUSD general fund. All OUSD personnel working on routine ongoing, continuing, or regular maintenance are paid from the general fund.

With reference to Finding 07-35 we have submitted a complete list of projects completed as part of the 06-07 deferred maintenance fund and point out that they are all clearly bond eligible and are not part of any regular, ongoing, or routine maintenance.

Received from district on October 15, 2009.

OUSD response: Finding 07-38 School Accountability Report Card (SARC)

Please delete previous OUSD response and replace with:

The deficiencies in the IEI report for 2007 were not reflected in the School Facilities Good Repair Status section of the 06-07 SARC since the SARCs for the 2006-07 year were created in the spring of 2008. The 18 month gap is due to the fact that the CDE only releases the SARC templates to the districts after the school year has ended and the test results have been released. Additionally the CDE set a deadline for the posting of the SARCS to March of the following year. By then noted repairs such as *Gas Leaks* or *Broken windows* had been addressed and new findings were recorded in the current school year.

Subsequently, in 08-09 the CDE changed this format, to more accurately report on current facility issues. The CDE SARC template now stipulates that the report for Facilities reflect the conditions of the current year. For example, the 2008-09 SARCs School Repair Status section is now based on the 09-10 status of the School Facility Good Repair Status section, and aligns with the Williams 09 report. In addition, OUSD put further systems in place to ensure there was coordination between the Facilities Department, the IEI (Williams) report and the information in the School Facility Good Repair Status section of the SARCs.

The following year, 2007-08 the SARCs were completed accurately and were in compliance with the state laws for SARCs.

Received from district on October 15, 2009.

OUSD response to the SCO Comment: Finding 07-40 – No class size reduction (CSR) training policy. This is a repeat of the prior year finding 06-52 due to the fact that the 2005-2006 audit was conducted during the 2007-2008 school year. The earliest any new 2005-2006 findings could be addressed and corrective action taken was during 2007-2008. OUSD addressed this audit finding in September 2007.

**The following section addresses the
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007**

Financial Statement Findings

Minimum Reserves Finding 06-01 (District explanation)
See District response to Finding 07-01

Documentation Finding 06-02 (District explanation)
See District response to Finding 07-02 and 07-03

Capital Assets Finding 06-03 (District explanation)
See District response to Finding 07-03, 07-04, and 07-10

Payroll Finding 06-04 (District explanation)
See District response to Finding 07-03

Cash Accounts Finding 06-04 (District explanation)
See District response to Finding 07-03

Associated Student Body and Subsidiary Funds Finding 06-06 (District explanation)
See District response to Finding 07-03 and 07-07

Revenue Finding 06-07 (District explanation)
See District response to Finding 07-03

Accounts Receivable Finding 06-08 (District explanation)
See District response to Finding 07-03

Deferred Revenue Finding 06-09 (District explanation)
See District response to Finding 07-03

Purchasing Finding 06-10 (District explanation)

See District response to Finding 07-03

Accounts Payable Finding 06-11 (District explanation)

See District response to Finding 07-03

Self-Insurance Fund Finding 06-12 (District explanation)

See District response to Finding 07-03

Fund Balances Restatements Finding 06-13 (District explanation)

See District response to Finding 07-03

Inadequate Controls Finding 06-14 (District explanation)

See District response to Finding 07-03

Interfund Transfer Deficiencies Finding 06-15 (District explanation)

See District response to Finding 07-03

Long-Term Liabilities Finding 06-16 (District explanation)

See District response to Finding 07-03

Long-Term Debt Finding 06-17 (District explanation)

See District response to Finding 07-03

Emergency Apportionment Loan Finding 06-18 (District explanation)

See District response to Finding 07-03

Certificates of Participation Finding 06-19 (District explanation)

See District response to Finding 07-03

Capital Leases Finding 06-20 (District explanation)

See District response to Finding 07-03

Conversion Entries Finding 06-21 (District explanation)

See District response to Finding 07-03 and 07-05

Deferred Maintenance Grant Finding 06-22(District explanation)

See District response to Finding 07-03 and 07-06

County School Facilities Fund Finding 06-23 (District explanation)

See District response to Finding 07-03

Stores Inventory Finding 06-24 (District explanation)

See District response to Finding 07-03 and 07-08

Bidding Process Finding 06-25 (District explanation)

See District response to Finding 07-03

Federal Award Findings

Federal Program Expenditures Finding 06-27 (District explanation)
See District response to Finding 07-09

Time Certifications Finding 06-28 (District explanation)
See District response to Finding 07-12

National School Lunch Program Finding 06-29 (District explanation)
See District response to Finding 07-20

National School Lunch Program Finding 06-30 (District explanation)
See District response to Finding 07-20

National School Lunch Program Finding 06-31 (District explanation)
See District response to Finding 07-20

National School Lunch Program Finding 06-32 (District explanation)
See District response to Finding 07-20

Title I Finding 06-34 (District explanation)
See District response to Finding 07-16

State Award Findings

Average Daily Attendance Finding 06-32 (District explanation)
See District response to Findings 07-21, 07-22, and 07-26

Average Daily Attendance Finding 06-36 (District explanation)
See District response to Finding 07-21, 07-22, and 07-26

Teachers credentials Finding 06-38 (District explanation)
See District response to Finding 07-24

Kindergarten Continuation Finding 06-39 (District explanation)
See District response to Finding 07-25

Independent Study Finding 06-40 (District explanation)
See District response to Finding 07-26

Continuation Education Attendance Reporting Finding 06-41 (District explanation)
See District response to Finding 07-28

Adult Education Finding 06-42 (District explanation)
See District response to Findings 07-29 and 07-30

Instructional Minutes Finding 06-43 (District explanation)
Waiver applied for and granted

Morgan-Hart Funding Finding 06-44 (District explanation)
See District response to Finding 07-32

Instructional Materials Meeting and Documentation Finding 06-45 (District explanation)
Waiver applied for and granted

Instructional Materials Scope Limitation Finding 06-46 (District explanation)
See District response to Finding 07-33

Administrative Employees to Teachers Ratio Finding 06-47 (District explanation)
See District response to Finding 07-34

Construction Bonds Proceeds Finding 06-49 (District explanation)
See District response to Finding 07-35

Proposition 20 Lottery Fund Finding 06-50 (District explanation)
See District response to Finding 07-37

School Accountability Report Card Finding 06-51 (District explanation)
See District response to Finding 07-38

Class Size Reduction Finding 06-52 (District explanation)
See District response to Finding 07-40

Charter Schools Finding 06-53 (District explanation)
See District response to Finding 07-03

Attachment (A)

Oakland Unified School District
 Budget Summary Report 0012
 As of 06/30/07

Fund: 14 - DEFERRED MAINTENANCE FUND
 Sub Fund: 1414 - DEFERRED MAINT FUND

	Adopted Budget	Revised Budget	Encumbered Amount	Expended Amount	Unencumbered Balance
Object : 5000 - SERVICES OTH OPERATING EXPENSES					
5670 - REPAIRS CONT	0.00	8,806,488.84		3,346,386.85	5,460,101.99
Object 5000 Totals:	0.00	8,806,488.84		3,346,386.85	5,460,101.99
Object : 6000 - CAPITAL OUTLAY					
6215 - ARCHITECTS/ENGINEERS	0.00	66,300.00		53,321.25	12,978.75
6262 - Other Planning Costs	0.00	2,991.52		2,991.52	0.00
6271 - Main Construction	0.00	379,798.00		0.00	379,798.00
6280 - Testing	0.00	6,510.00		6,510.00	0.00
Object 6000 Totals:	0.00	455,599.52		62,822.77	392,776.75
Object : 7000 - OTHER OUTGO					
7990 - UNAPPORTIONATED FUND BALANCE	7,232,568.00	0.00		0.00	0.00
Object 7000 Totals:	7,232,568.00	0.00		0.00	0.00
Object : 8000 - REVENUE					
8001 - BEGIN FUND BALANCE - BUDGETARY	3,000,000.00	5,029,520.26		0.00	5,029,520.26
8005 - BFB RESTATMENTS - BUDGETARY	0.00	0.10		0.00	0.10
8540 - DEFERRED MAINTENANCE ALLOWANCE	2,091,784.00	2,091,784.00		1,955,665.00	136,119.00
8660 - INTEREST	49,000.00	49,000.00		191,848.64	(142,848.64)
8699 - OTHER LOCAL REVENUE	0.00	0.00		456.60	(456.60)
8915 - TO DMF FR GENERAL, SRF, BUILDING	2,091,784.00	2,091,784.00		2,060,010.00	31,774.00
Object 8000 Totals:	7,232,568.00	9,262,088.36		4,207,980.24	5,054,108.12
Sub Fund 1414 Totals:	14,465,136.00	18,524,176.72		7,617,189.86	10,906,986.86
Fund 14 Totals:	14,465,136.00	18,524,176.72		7,617,189.86	10,906,986.86
Report Totals:	14,465,136.00	18,524,176.72		7,617,189.86	10,906,986.86

Attachment (B)

DEFERRED MAINTENANCE PROJECT 2006-07 BUILDINGS & GROUNDS DEPT				
(Revised 9/13/2007)				
Site #	School Site	Project		Expended Amount
106	Chabot 9092	Restroom		1,467.75 ✓
108	Cleveland	Paving & roofing		533,397.50
111	Crocker Highlands	Retaining Wall/Renova		49,517.24 ✓
119	Glenview 9092	Restrooms		3,975.92 ✓
120	Golden Gate 9092	Restrooms		129,741.32 ✓
128	Jefferson	Paving		1,049.62
129	Lafayette	Painting		11,598.63
134	Lockwood	Paving		10,972.25
136	Horace Mann Y.R 9092	Retaining Wall		19,450.25 ✓
138	Markham 9092	Paving		575,768.33 ✓
139	Maxwell Park 9092	Retaining Wall		116,399.00 ✓
139	Maxwell Park	Landscaping		46,846.47 ✓
144	Parker 9092	Paving		453,066.31 ✓
206	Bret Harte	Retaining Wall		235,563.25
207	Havenscourt	Paving		12,588.80
209	Lowell 9092	Roofing		35,663.63 ✓
212	Roosevelt	Retaining Wall & Foundation Leak		225.20
301	Castlemont	Paving		82,081.36
301	Castlemont	Restroom		347,327.34
302	Fremont	Restroom		211,016.71
304	Oakland High	Restroom		82,669.47
306	Skyline	Paving, Phase I		372,554.20
306	Skyline	Paving, Phase II&III		60,767.25 ✓
904	Chabot Observatory 9092	Roofing		8,231.00 ✓
GRAND TOTAL				3,401,938.80
IFAS TOTAL:				\$ 3,409,209.62
QB TOTAL:				\$ 3,401,928.38
Diff ***				\$ 7,281.24

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**State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874**