

DRAFT

January 9, 2023

Re: Board Bylaw 9131, Section 3, Report of Audit Committee to the Oakland Unified School District Board of Trustees (Trustees)

Dear Trustees,

The Audit Committee (Committee) is pleased to present its findings, recommendations and summary of activities for the calendar year 2022.

Financial Statements

The Committee reviewed the June 30, 2022, Annual Financial Report in detail with the external auditor, Eide Bailly, and with the Chief Business Officer (CBO), Lisa Grant-Dawson. For the first time in the Committee's experience, the audit opinion is unmodified with respect to the financial statement preparation. This is a noteworthy accomplishment that resulted largely from the inclusion of the associated student body (ASB) accounts in the financial report.

However, there are six audit findings of *material weaknesses* in internal controls (all but one are repeat findings) and five state compliance findings. A *material weakness* is a deficiency in internal controls such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected and corrected on a timely basis. The list of 2022 audit findings is attached. The Committee and the public asked the district administration to provide progress updates on clearing the audit findings on a monthly basis. To that end, the district provides a tracker (edited and attached). Of note, the audit finding related to providing employee data to pension providers (2022-001) and to vacation records (2022-002 and 003) could result in excess costs to the district if the payouts are more than what was earned. These are repeat findings and the district gave a presentation to the Committee in April of 2022 on the cause and the corrective action they intended to implement. The Committee will follow up with district staff on the progress they have made on implementing the corrective action plan, which includes creating forms for capturing pension related data, document storage, training and internal review and supervision. One should note, however, that there are historic record retention failures that will make it difficult to correct these audit findings but improvements on a going forward basis can be made.

Significant progress was made with respect to recording average daily attendance (ADA) and for the first time in five years there was no audit finding with respect to ADA. However, a new tracking system was implemented for afterschool program attendance and there are three related audit findings, which will hopefully not repeat once the new system is established.

We should also note that the district incurred a \$360,000 fine related to teacher misassignments, which was identified as an audit finding in 2021. That audit finding did not repeat in 2022.

While technically beyond the purview of the Committee's charge, we would like to note two items contained in the annual financial report. One is the amount of available reserves the district currently holds, which is 8.85 percent (see page 71 of the financial statements). The statutorily required reserve is only 2 percent and the Trustees approved a higher reserve of 3 percent. The Committee suspects that some of the excess reserve is the result of the substantial amount of one-time state and federal Covid-19 relief funding received in 2021-22. Nonetheless, we believe and recommend a more explicit and transparent explanation of the reason for the excess reserve. The second item has to do with the district's projected increase in ADA (see page 71 of the financial statements). The auditor reports states that ADA decreased by 4,320 over the past two years and ADA is expected to increase for the fiscal year 2021-2022 as compared to the fiscal year 2020-2021 by 4,499. However, the Audit Committee confirmed that in spite of the enrollment declining the ADA funding increases because of the changes in state funding due to the pandemic since the District is now using the State authorized average of the three prior years ADA. The Committee is concerned about the impact of the reduction in enrollment and ADA as illustrated in the multi-year projection. The Committee believes that additional public explanation of this projection is also warranted and would be useful to understanding the overall fiscal health of the district going forward.

In sum, the district made substantial progress in correcting some significant and long-standing deficiencies in control (ADA, ASB accounts and teacher misassignments) and although there were four new findings, the resolution of at least the attendance findings seems well underway. It is the hope and expectation of the Committee that in 2023 similar progress will be made on the vacation and pension findings and that will be the focus of the Committee.

External Auditor

In accordance with BB9131, the Committee is charged with recommending the auditor to the Trustees for their approval. To that end, the Committee reviewed the request for proposals and selection process, and asked for and received progress reports from the CBO during the year, and recommends EideBailly to be the 2022-23 external auditor. The Committee also recommends that a more deliberate effort be made to identify and invite eligible audit firms to bid as the number of bids was extremely small.

The Committee

Currently, the Committee consists of seven members and there is one vacancy plus a member whose term is expiring at the end of January. There will likely be two vacancies at the end of January, and it would be beneficial to the Committee if new members have audit or governmental accounting experience.

Absent further guidance from the Trustees, for the remainder of 2023 the committee intends to focus on reviewing internal controls particularly as they relate to the audit findings.

The Committee also wishes to express its appreciation for the continued support from Trustee Williams and CBO, Lisa Grant-Dawson. Their attendance and participation in Committee meetings has been and will continue to be extremely valuable.

Respectfully, the Audit Committee

cc Kyla Johnson-Trammell, Superintendent

Attachment 1 (Audit findings tracker)

DRAFT

Audit Committee Audit Findings Tracker - January 2025

2018	2019	2020	2021	2022	Audit Finding Description	Views of Responsible officials/Targeted Resolution
x	x	x	x	2022-001	Human Resources/Payroll Internal Control Process, Pension - A material weakness in internal control over financial reporting – District could not supply documentation to satisfy us that census information and payroll amounts reported to pension providers are complete and accurate. We analytically recalculated these expenses, noting that the payment made to pension providers during the year appears correctly recorded in the accounting records of the District. However, since we could not verify if the underlying data on which those charges are based is complete and accurate, we cannot confirm if the eventual payments are for the correct amounts. Repeat finding 2021-002.	The district identified this area as a key concern requiring the alignment between payroll, human resources, business services and risk management. The district leadership team is working to identify, train, and focus on the critical areas to make sure that the position management, attachment, employee compensation alignment and reporting are accurate and reliable. This is an intense area of focus with a desire to make significant strides for improvement in 2022-23.
x	x	x	x	2022-002	Payroll Internal Control Process Vacation Tracking - A material weakness in internal control over financial reporting – The District was unable to supply documentation to prove that vacation usage is accurately recorded in the payroll system and that balances do not exceed the maximum allowed per District policy. In substantive testing of general ledger account balances the reported payroll expenditures are fairly stated based on the amounts paid upon separation. However we can not conclude if the District has a complete and accurate accounting of vacation balances on which to base payment upon separation. Repeat finding 2020-003.	The District requested and received leave documents from school sites and departments as of 2017-18 when a practice that was formerly done ceased. District physically collected documents in 2021-22 and have requested them as an annual submission to be available for the audit. The leadership team and assigned staff will also develop a revised standard operating procedure to share with all departments and sites to ensure that leave procedures are understood and followed which includes a monthly reconciliation by department and site and the use of the Frontline System designed to capture the information.
			x	2022-003	Payroll Internal Control Process, Vacation Payments A material weakness in internal control over financial reporting – The District could pay \$7M to employees for vacation accumulated; however, it is unable to assert that the amounts paid were actually due to the employees. Repeat finding prior year 2021-004	See above.
x	x	x	x	2022-004	Health Benefits Governing Board - A material weakness in internal control over financial reporting The formula to calculate the District's health and welfare obligations per the HBGB agreement is unclear and has been interpreted differently with substantially varying outcomes. Specifically, the part of the formula that reads "...take the FTE from the total of all authorized full-time equivalent positions covered by this Agreement...as outlined in the Position Control Report as of October 31..." is not clear. Standard usage of the PCR is for budgeting purposes, subject to estimation risk and uncertainty. Repeat finding 2021-005.	The District resumed mediation with HBGB as of October 2022
	x	x	x	2022-005	Audit Adjustments - A material weakness in internal control over financial reporting – Audit adjustments was necessary for the financial statements to be presented to conform with generally accepted accounting principles. The district revised its year end closing process to include recordings of the fair market value adjustments. There were errors in the calculation. Repeat finding 2020-006.	The District has procedures in place at year end to review for audit adjustments and will ensure that the procedures are completed.
x		x	x	2022-006	21st Century Attendance Reporting - misstated: 3 of 5 schools tested had error rates between 1.2 and 10.9% (2022), insignificantly overstated (2020), not accurate (2018), poorly maintained (2017). There was a material weakness in internal control over compliance because attendance reported to the CDE was incorrect.	In fall of 2021 the District has implemented a new Expanded Learning Attendance improved tracking system and provided training to service providers. Mandatory training sessions were held. The system provides real-time student and attendance data for all after school providers. This should result in improved outcomes for 2023.
x	x	x	x	2022-007	School Accountability Report Card - The District did not provide us with the quarterly summaries described in the criteria paragraph. Repeat Finding 2021-010	The district is continuing to build out the complex data reporting mechanism to allow for continued compliance with Teacher Certification Misassignments. There is additional work to be done and we anticipate more significant operational improvements in 2023-24.
				2022-008	Independent Study - state requires written agreements for pupils enrolled in an independent study program. Of a sample of 40 one was missing.	We will communicate with site personnel and provide training as necessary.
				2022-009	ASES Early Release - Reason for early release from ASES program must be consistent with the early release policy	We will communicate with site personnel and provide training as necessary.
				2022-010	ASES - Attendance Reporting - Errors in attendance reported to CDE.	See finding 2022-006
				2022-011	Immunizations - Specific immunization records are required to be on file. Of 96 tested pupils 4 were missing data.	We will communicate with site personnel and provide training as necessary.
14	13	15	10	11		

DRAFT

DRAFT

January 9, 2023

Re: Board Bylaw 9131, Section 3, Report of Audit Committee to the Oakland Unified School District Board of Trustees (Trustees)

Dear Trustees,

The Audit Committee (Committee) is pleased to present its findings, recommendations and summary of activities for the calendar year 2022.

Financial Statements

The Committee reviewed the June 30, 2022, Annual Financial Report in detail with the external auditor, Eide Bailly, and with the Chief Business Officer (CBO), Lisa Grant-Dawson. For the first time in the Committee's experience, the audit opinion is unmodified with respect to the financial statement preparation. This is a noteworthy accomplishment that resulted largely from the inclusion of the associated student body (ASB) accounts in the financial report.

However, there are six audit findings of *material weaknesses* in internal controls (all but one are repeat findings) and five state compliance findings. A *material weakness* is a deficiency in internal controls such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected and corrected on a timely basis. The list of 2022 audit findings is attached. The Committee and the public asked the district administration to provide progress updates on clearing the audit findings on a monthly basis. To that end, the district provides a tracker (edited and attached). Of note, the audit finding related to providing employee data to pension providers (2022-001) and to vacation records (2022-002 and 003) could result in excess costs to the district if the payouts are more than what was earned. These are repeat findings and the district gave a presentation to the Committee in April of 2022 on the cause and the corrective action they intended to implement. The Committee will follow up with district staff on the progress they have made on implementing the corrective action plan, which includes creating forms for capturing pension related data, document storage, training and internal review and supervision. One should note, however, that there are historic record retention failures that will make it difficult to correct these audit findings but improvements on a going forward basis can be made.

Significant progress was made with respect to recording average daily attendance (ADA) and for the first time in five years there was no audit finding with respect to ADA. However, a new tracking system was implemented for afterschool program attendance and there are three related audit findings, which will hopefully not repeat once the new system is established.

We should also note that the district incurred a \$360,000 fine related to teacher misassignments, which was identified as an audit finding in 2021. That audit finding did not repeat in 2022.

While technically beyond the purview of the Committee's charge, we would like to note two items contained in the annual financial report. One is the amount of available reserves the district currently holds, which is 8.85 percent (see page 71 of the financial statements). The statutorily required reserve is only 2 percent and the Trustees approved a higher reserve of 3 percent. The Committee suspects that some of the excess reserve is the result of the substantial amount of one-time state and federal Covid-19 relief funding received in 2021-22. Nonetheless, we believe and recommend a more explicit and transparent explanation of the reason for the excess reserve. The second item has to do with the district's projected increase in ADA (see page 71 of the financial statements). The audit report states that ADA decreased by 4,320 over the past two years and ADA is expected to increase for the fiscal year 2021-2022 as compared to the fiscal year 2020-2021 by 4,499. However, the Audit Committee confirmed that in spite of the enrollment declining the ADA funding increases because of the changes in state funding due to the pandemic since the District is now using the State authorized average of the three prior years ADA. The Committee is concerned about the impact of the reduction in enrollment and ADA as illustrated in the multi-year projection.

In sum, the district made substantial progress in correcting some significant and long-standing deficiencies in control (ADA, ASB accounts and teacher misassignments) and although there were four new findings, the resolution of at least the attendance findings seems well underway. It is the hope and expectation of the Committee that in 2023 similar progress will be made on the vacation and pension findings and that will be the focus of the Committee.

External Auditor

In accordance with BB9131, the Committee is charged with recommending the auditor to the Trustees for their approval. To that end, the Committee reviewed the request for proposals and selection process, and asked for and received progress reports from the CBO during the year, and recommends EideBailly to be the 2022-23 external auditor. The Committee also recommends that a more deliberate effort be made to identify and invite eligible audit firms to bid as the number of bids was extremely small.

The Committee

Currently, the Committee consists of seven members and there is one vacancy plus a member whose term is expiring at the end of January. There will likely be two vacancies at the end of January, and it would be beneficial to the Committee if new members have audit or governmental accounting experience.

Absent further guidance from the Trustees, for the remainder of 2023 the committee intends to focus on reviewing internal controls particularly as they relate to the audit findings.

The Committee also wishes to express its appreciation for the continued support from Trustee Williams and CBO, Lisa Grant-Dawson. Their attendance and participation in Committee meetings has been and will continue to be extremely valuable.

Respectfully, the Audit Committee

cc Kyla Johnson-Trammell, Superintendent

Attachment 1 (Audit findings tracker)

DRAFT

Audit Committee Audit Findings Tracker - January 2025

2018	2019	2020	2021	2022	Audit Finding Description	Views of Responsible officials/Targeted Resolution
x	x	x	x	2022-001	Human Resources/Payroll Internal Control Process, Pension - A material weakness in internal control over financial reporting – District could not supply documentation to satisfy us that census information and payroll amounts reported to pension providers are complete and accurate. We analytically recalculated these expenses, noting that the payment made to pension providers during the year appears correctly recorded in the accounting records of the District. However, since we could not verify if the underlying data on which those charges are based is complete and accurate, we cannot confirm if the eventual payments are for the correct amounts. Repeat finding 2021-002.	The district identified this area as a key concern requiring the alignment between payroll, human resources, business services and risk management. The district leadership team is working to identify, train, and focus on the critical areas to make sure that the position management, attachment, employee compensation alignment and reporting are accurate and reliable. This is an intense area of focus with a desire to make significant strides for improvement in 2022-23.
x	x	x	x	2022-002	Payroll Internal Control Process Vacation Tracking - A material weakness in internal control over financial reporting – The District was unable to supply documentation to prove that vacation usage is accurately recorded in the payroll system and that balances do not exceed the maximum allowed per District policy. In substantive testing of general ledger account balances the reported payroll expenditures are fairly stated based on the amounts paid upon separation. However we can not conclude if the District has a complete and accurate accounting of vacation balances on which to base payment upon separation. Repeat finding 2020-003.	The District requested and received leave documents from school sites and departments as of 2017-18 when a practice that was formerly done ceased. District physically collected documents in 2021-22 and have requested them as an annual submission to be available for the audit. The leadership team and assigned staff will also develop a revised standard operating procedure to share with all departments and sites to ensure that leave procedures are understood and followed which includes a monthly reconciliation by department and site and the use of the Frontline System designed to capture the information.
			x	2022-003	Payroll Internal Control Process, Vacation Payments A material weakness in internal control over financial reporting – The District could pay \$7M to employees for vacation accumulated; however, it is unable to assert that the amounts paid were actually due to the employees. Repeat finding prior year 2021-004	See above.
x	x	x	x	2022-004	Health Benefits Governing Board - A material weakness in internal control over financial reporting The formula to calculate the District's health and welfare obligations per the HBGB agreement is unclear and has been interpreted differently with substantially varying outcomes. Specifically, the part of the formula that reads "...take the FTE from the total of all authorized full-time equivalent positions covered by this Agreement...as outlined in the Position Control Report as of October 31..." is not clear. Standard usage of the PCR is for budgeting purposes, subject to estimation risk and uncertainty. Repeat finding 2021-005.	The District resumed mediation with HBGB as of October 2022
	x	x	x	2022-005	Audit Adjustments - A material weakness in internal control over financial reporting – Audit adjustments was necessary for the financial statements to be presented to conform with generally accepted accounting principles. The district revised its year end closing process to include recordings of the fair market value adjustments. There were errors in the calculation. Repeat finding 2020-006.	The District has procedures in place at year end to review for audit adjustments and will ensure that the procedures are completed.
x		x	x	2022-006	21st Century Attendance Reporting - misstated: 3 of 5 schools tested had error rates between 1.2 and 10.9% (2022), insignificantly overstated (2020), not accurate (2018), poorly maintained (2017). There was a material weakness in internal control over compliance because attendance reported to the CDE was incorrect.	In fall of 2021 the District has implemented a new Expanded Learning Attendance improved tracking system and provided training to service providers. Mandatory training sessions were held. The system provides real-time student and attendance data for all after school providers. This should result in improved outcomes for 2023.
x	x	x	x	2022-007	School Accountability Report Card - The District did not provide us with the quarterly summaries described in the criteria paragraph. Repeat Finding 2021-010	The district is continuing to build out the complex data reporting mechanism to allow for continued compliance with Teacher Certification Misassignments. There is additional work to be done and we anticipate more significant operational improvements in 2023-24.
				2022-008	Independent Study - state requires written agreements for pupils enrolled in an independent study program. Of a sample of 40 one was missing.	We will communicate with site personnel and provide training as necessary.
				2022-009	ASES Early Release - Reason for early release from ASES program must be consistent with the early release policy	We will communicate with site personnel and provide training as necessary.
				2022-010	ASES - Attendance Reporting - Errors in attendance reported to CDE.	See finding 2022-006
				2022-011	Immunizations - Specific immunization records are required to be on file. Of 96 tested pupils 4 were missing data.	We will communicate with site personnel and provide training as necessary.
14	13	15	10	11		

DRAFT