

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

Audit Report

Year Ended June 30, 2006



JOHN CHIANG
California State Controller

July 2008



JOHN CHIANG
California State Controller

July 23, 2008

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, 2006.

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 apportionment 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/wm:sk

cc: Leon Glaster
Associate Superintendent of Fiscal Services
Oakland Unified School District
Sheila Jordan, Superintendent
Alameda County Office of Education
Kerry Hamill
Board Director, District 1
Oakland Unified School District
David Kakishiba
Board Director, District 2
Oakland Unified School District
Gregory 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
Diana Duca, 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, 2006, 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, 2006, 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's accounting records were deficient, and certain records and supporting data were not available. Because of the deficiencies in the district's accounting records, the State Controller's Office was 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 \$172,968,310, \$38,905,601, \$679,251,179, \$178,695,608, \$39,827,758, \$12,805,357, \$587,232,375, \$539,797,621, \$551,160,910, \$325,642,121, \$12,722,744, and \$164,171,771, respectively, as of June 30, 2006.

Because of 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, 2006. 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 reserves were \$6,592,314 below the recommended level, and the 2006-07 budget indicated deficit spending in the next fiscal year which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to this matter is also described. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, the State Controller's Office also issued its report dated July 23, 2008, 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 should be considered in assessing this report.

The Management's Discussion and Analysis on pages 4 through 13 and budgetary comparison information on page 55 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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.

The State Controller's Office was engaged to perform an audit for the purpose of forming an opinion on the financial statements that collectively comprise the Oakland Unified School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Oakland Unified School District. 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 States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Oakland Unified School District. However, because the State Controller's Office was unable to express, and does not express, an opinion on the basic financial statements, as stated above, the State Controller's Office was unable to express, and does not express, an opinion on the schedule of expenditures of federal awards.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

July 23, 2008

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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, 2006. 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 increase in capital grants and operating grants, district-wide revenues across all funds increased by \$42.3 million from prior year.
- Instructional costs decreased by \$20 million due to declining enrollment, while instruction related services increased by \$7.6 million due to Expect Success instructional focus; this was the root cause of the net decrease in expenses of \$12.8 million in fiscal year 2005-06 from the prior year.
- Cash increased by \$114.2 million from prior year due mainly from the General Obligation Bonds. Building fund cash balance were \$85 million in 2005-06 compared to -\$7.9 million in prior year.
- Capital Assets increased by \$100.9 million due primarily to complete building projects and construction-in-progress building projects during the 2005-06 fiscal year.
- Long-term liabilities increased \$138.4 million due to increase in general obligation bonds payable.
- The districts unrestricted reserve is \$5.4 million. The required state reserve level of 2 percent or, approximately \$8.01 million, is unmet.

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.
- 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.

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

- ❖ 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 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.

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 display the district's Governmental activities.

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

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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-Through Fund is used to account separately for employee payroll activity.

THE DISTRICT AS A WHOLE

Net Assets

Table 1 provides a summary of the School District's net assets as of June 30, 2006 in comparison to June 30, 2005. Table 1: Net Assets comparison.

OAKLAND UNIFIED SCHOOL DISTRICT**Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006**

Table 1
Net Assets Comparison
June 2005 - June 2006

	June 30, 2005	June 30, 2006	Net Change
Assets			
Cash	\$ 58,764,905	\$ 172,968,310	114,203,405
Investments	—	—	—
Receivables	45,433,644	38,905,601	(6,528,043)
Stores Inventories	188,109	188,109	—
Prepaid Expenses	100,000	100,000	—
Capital Assets	399,671,944	500,555,571	100,883,627
Total Assets	504,158,602	712,717,591	208,558,989
Liabilities			
Accounts Payable and Other Current Liabilities	41,534,693	39,827,758	(1,706,935)
Deferred Revenue	23,261,407	12,805,357	(10,456,050)
Long-term liabilities	449,721,463	587,232,375	137,510,912
Total liabilities	514,517,563	639,865,490	125,347,927
Net Assets			
Invested in capital assets, net of related debt	53,694,514	92,829,563	39,135,049
Restricted	17,258,423	67,694,989	50,436,566
Unrestricted	(81,311,898)	(87,672,451)	(6,360,553)
Total Net Assets	<u>\$(10,358,961)</u>	<u>\$72,852,101</u>	<u>\$83,211,062</u>

The School District's combined net assets increased \$83.2 million to \$72.9 million. Net assets invested in capital assets, net of related debt, account for \$92.8 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 \$67.7 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 deficit is (\$87.7) million. The unrestricted net deficit 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 deficit from year to year.

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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, 2006 in comparison to June 30, 2005.

**Table 2
Statement of Activities
June 2004 - June 2005**

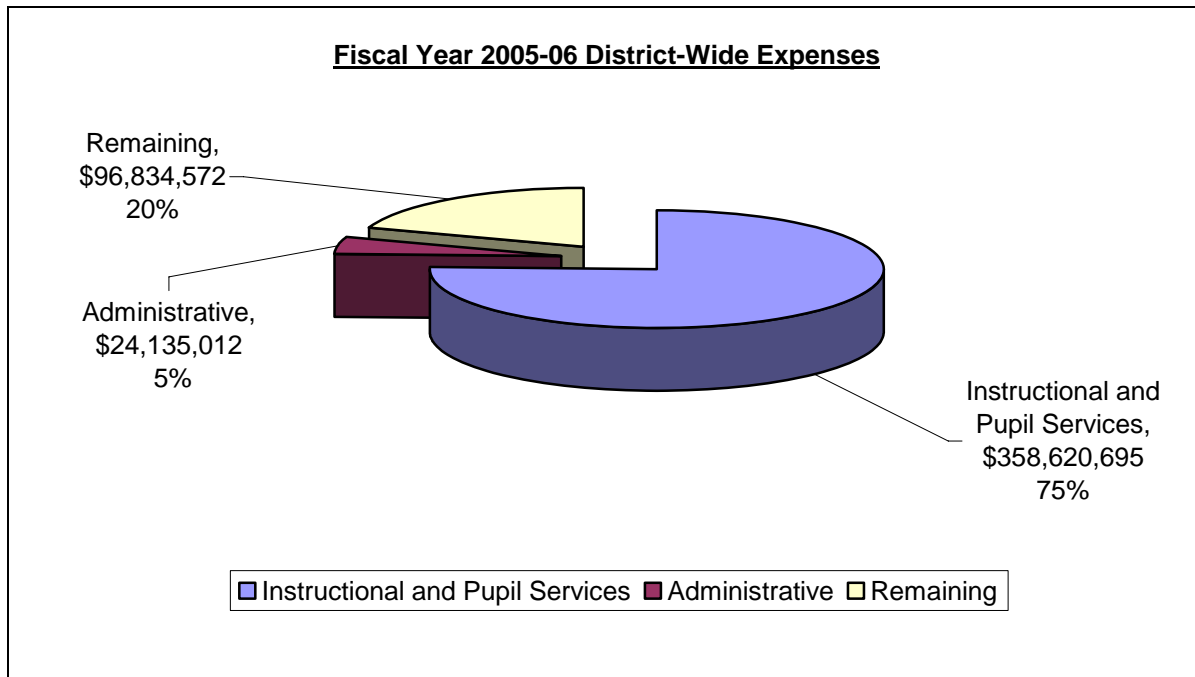
	*June 30, 2005	*June 30, 2006	Net Change
Revenues			
Program Revenues			
Charges for Services	579,191	13,717	(565,474)
Operating Grants and Contributions	168,562,411	175,870,708	7,308,297
Capital Grants and Contributions	2,555,049	33,305,047	30,749,998
			-
Total Program Revenues	171,696,651	209,189,472	37,492,821
			-
General Revenues			
Taxes Levied for General Purposes	78,430,882	78,461,386	30,504
Taxes Levied for Other Specific Purposes	22,633,423	23,352,836	719,413
Taxes Levied for Debt Service	19,190,387	26,119,846	6,929,459
Fed. & State Aid not restricted to Spec. purpose	195,236,278	178,809,002	(16,427,276)
Interest & Investment Earnings	2,167,707	3,426,038	1,258,331
Interagency Revenue	6,455,441	10,380,146	3,924,705
Special and Extraordinary items		7,454,326	7,454,326
Miscellaneous	9,133,658	10,058,896	925,238
			-
Total General Revenue	333,247,776	338,062,476	4,814,700
			-
Total Revenue	504,944,427	547,251,948	42,307,521
			-
Expenses			
Instruction	259,870,024	239,936,982	(19,933,042)
Instruction Related Services	65,633,463	73,286,399	7,652,936
Pupil Support Services	46,325,415	45,397,314	(928,101)
General Administration	22,986,293	24,135,012	1,148,719
Interest on Long-term Debt	21,166,202	24,039,638	2,873,436
Plant Services	42,918,441	42,811,923	(106,518)
Other	33,510,722	29,983,011	(3,527,711)
			-
Total Expenses	492,410,560	479,590,279	(12,820,281)
			-
Change in Net Assets	12,533,867	67,661,669	55,127,802
			-
Net Assets - Beginning		(10,358,961)	(10,358,961)
Restatements		15,549,393	15,549,393
			-
Net Assets - Ending		72,852,101	72,852,101

OAKLAND UNIFIED SCHOOL DISTRICT

Management’s Discussion and Analysis For Fiscal Year Ended June 30, 2006

Chart 1: District-wide expenses 2005-06

Chart 1 provides a ratio of 2005-06 District-wide expenses by category as a % of total expenses.



The District’s net assets increased by \$55.1 million from June 30, 2005 to June 30, 2006 fiscal years.

The District’s expenses for instructional and pupil services represented 75% of total expenses. The purely administrative activities of the District accounted for just 5% of total costs. The remaining 20% was spent in the areas of plant services, ancillary services, community services, depreciation, interest on long-term debt and other outgo.

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, 2006, and the increase and decrease (in amount and percentage) in relations to prior year amounts.

	2004-05 Fiscal Year	2005-06 Fiscal Year	Percent of Total	Increase (Decrease) From Prior Fiscal Year	Percent Increase (Decrease) From Prior Fiscal Year
Revenue Limit Sources	\$ 236,181,543	234,721,800	.435%	\$ (1,459,743)	(0.006)%
Federal	\$ 83,460,051	77,616,836	.144%	\$ (5,843,215)	(0.070)%
Other State	\$ 118,643,220	139,849,319	.259%	\$ 21,206,099	0.179%
Other Local	\$ 66,659,614	87,609,666	.162%	\$ 20,950,052	0.314%
Total Revenues	\$ 504,944,428	539,797,621	1.00%	\$ 34,853,193	.069%

OAKLAND UNIFIED SCHOOL DISTRICT**Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006**

The District's increase in total revenues was largely due to the increase in other state and local revenues. The District's declining enrollment resulted in the slight 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, 2006, and the increase and decrease (in amount and percentage) in relations to prior year amounts.

	2004-05 FY	2005-06 FY	Percent of Total	Increase (Decrease) from prior FY	Percent Increase (Decrease) prior FY
Certificated Salaries	183,444,462	175,915,288	0.32	(7,529,174)	(0.041)
Classified Salaries	65,689,470	65,197,471	0.12	(491,999)	(0.007)
Employee Benefits	86,580,066	84,189,289	0.15	(2,390,777)	(0.028)
Books and Supplies	35,986,771	32,094,994	0.06	(3,891,777)	(0.108)
Services, other Operational expenses	71,728,044	81,239,367	0.15	9,511,323	0.133
Capital Outlay	48,038,832	81,391,345	0.15	33,352,513	0.694
Debt Service	29,849,781	31,133,158	0.06	1,283,377	0.043
Total Expenditures	521,317,426	551,160,912	1.00	29,843,486	0.057

Total District expenses increased over the prior year due the increase in the capital outlay expense as a result of increased modernization and new construction.

Table 5: Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	2,303,484	4,648,585
Charter Schools	1,504,741	-
Child Development	-	591,408
Cafeteria	476,960	206,843
Deferred Maintenance	1,982,193	-
Building	3,308,601	1,982,193
Capital Facilities	-	5,293,715
Debt Service	3,146,765	-
Total	12,722,744	12,722,744

The District makes the following 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.

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 6 - Capital Assets at year-end (net of Depreciation)				
	Balance			Balance
	July 1, 2005	Additions	Deductions	June 30, 2006
Governmental Activities				
Land	17,661,940	-	-	17,661,940
Site Improvements	30,450,854	2,830,145	(85,280)	33,195,719
Buildings	425,393,202	89,798,349	(80,806,296)	434,385,255
Machinery & Equipment	14,561,439	535,318		15,096,757
Construction in progress	100,905,463	78,006,046		178,911,509
				-
Total at Historical Cost	588,972,898	171,169,858	(80,891,576)	679,251,180
Less: accumulated depreciatiobn				
Buildings	(161,337,511)		8,801,285	(152,536,226)
Improvements	(17,188,162)		873,236	(16,314,926)
Equipment	(11,330,101)		1,485,645	(9,844,456)
Total Accumulated Depreciation	(189,855,774)		11,160,166	(178,695,608)
Total Capital Assets, Net	399,117,124	171,169,858	(69,731,410)	500,555,572

Table 7: Outstanding Long-term Debt at Year End						
	Balance				Balance	Due Within
	July 1, 2005	Additions	Deductions	Adjustments	June 1, 2006	One Year
Bonds and Notes Payable:						
General Obligation Bonds	318,905,458	142,202,516	(5,715,000)		455,392,974	6,415,000
State School Building Loans	36,972		(32,799)	76,709	80,882	33,578
Certificate of Participations	27,035,000		(2,485,000)		24,550,000	2,635,000
Emergency Apportionment loan	59,481,707	3,201,242	(2,832,949)		59,850,000	
Total Bonds and Notes Payable	405,459,137	145,403,758	(11,065,748)	76,709	539,873,856	9,083,578
Other Liabilities:						
Self Insurance Obligations	39,854,807			3,396,000	43,250,807	
Compensated Absences	3,102,252	376,898			3,479,150	
Charter School Revolving Loan	405,267		(147,333)	(24,601)	233,333	133,333
Total Other Liabilities:	43,362,326	376,898	(147,333)	3,371,399	46,963,290	133,333
Government Activ. Long-Term Liab.	448,821,463	145,780,656	(11,213,081)	3,448,108	586,837,146	9,216,911

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

During fiscal year 2005-06 the District paid down \$11.2 million of debt which is offset by additional \$145.8 in debt and \$3.4 in adjustments made to correct outstanding balances for a net increase of \$138 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.

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, 2006:

- Federal Revenues decreased by \$17 million from the final budget to the actual due to carryover (deferred revenue) to subsequent fiscal year.
- The District's final budgeted total expenditures of \$436.2 million and the actual expenditures were only \$396.1 million. The majority of the unexpended funds were due to significant carryover of unexpended funds from restricted grants.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's cost of living adjustment for the 2006-07 budget is 5.92%.
- ADA is anticipated to be 37,424 which is a decrease of 4.2% over the prior year.

The Revenue Limit ADA is anticipated to be 38,676 which is a decrease of 7.6% over the prior year. The District passed Measure B in November, 2006 in the amount of \$435 million.

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 future forecast requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

OAKLAND UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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:

Leon Glaster
Interim 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, 2006

	<u>Governmental Activities</u>
Assets	
Cash in County Treasury (Note 2)	\$ 169,470,855
Cash in Bank(s) (Note 2)	138,550
Revolving Cash Account (Note 2)	150,000
Cash with a Fiscal Agent/Trustee (Note 2)	1,403,191
Cash Collections Awaiting Deposit (Note 2)	1,805,714
Accounts Receivable (Note 4)	38,835,478
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)	17,661,940
Improvement of Sites (Note 6)	33,195,719
Buildings (Note 6)	434,385,254
Equipment (Note 6)	15,096,757
Work in Progress (Note 6)	178,911,509
Less accumulated depreciation (Note 6)	<u>(178,695,608)</u>
Total assets	<u>\$ 712,717,591</u>
Liabilities	
Accounts Payable	\$ 39,827,758
Deferred Revenue (Note 1-E)	12,805,357
Long-term liabilities	
Due within one year	
Other General Long-Term Debt (Note 12)	\$ 133,333
General Obligation Bonds Payable (Note 7)	6,415,000
State School Building Loans Payable (Note 11)	33,578
Certificates of Participation (COPs) Payable (Note 9)	<u>2,635,000</u>
Total due within one year	9,216,911
Due after one year	
Other General Long-Term Debt (Note 12)	\$ 124,601
General Obligation Bonds Payable (Note 7)	455,126,601
State School Building Loans Payable (Note 11)	(33,452)
Certificates of Participation (COPs) Payable (Note 9)	21,915,000
Emergency Apportionment Loan Payable (Note 8)	56,648,758
Loss reserve (Note 18)	900,000
Self Insurance Obligation (Note 10)	39,854,807
Compensated Absences Payable (Note 13)	<u>3,479,149</u>
Total due after one year	<u>578,015,464</u>
Total liabilities	<u>\$ 639,865,490</u>

Exhibit 1
Page 2 of 2

Statement of Net Assets

June 30, 2006

	Governmental Activities
Net Assets	
Invested in capital assets, net of related debt	\$ 92,829,563
Restricted for:	
Capital projects	19,559,841
Debt Service	28,199,765
Educational programs	19,597,274
Other purposes (expendable)	338,109
Unrestricted	(87,672,451)
Total net assets	\$ 72,852,101

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

Exhibit 2

Statement of Activities Year Ended June 30, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities					
Instruction	\$ 239,936,982	\$ 6,509	\$ 83,451,149	\$ 33,305,047	\$ (123,174,277)
Instruction related services:					
Supervision of instruction	34,120,706	2,341	30,013,092	—	(4,105,273)
Instructional library, media, and technology	3,592,327	175	2,243,665	—	(1,348,487)
School site administration	35,573,366	603	7,734,617	—	(27,838,146)
Pupil services:					
Home-to-school transportation	9,778,846	518	6,637,670	—	(3,140,658)
Food services	13,534,923	985	12,624,487	—	(909,451)
All other pupil services	22,083,545	1,296	16,612,103	—	(5,470,146)
General administration:					
Data processing	5,575,941	14	180,031	—	(5,395,896)
All other general administration	18,559,071	553	7,083,348	—	(11,475,170)
Plant services	42,811,923	277	3,557,254	—	(39,254,392)
Ancillary services	1,051,702	—	16,097	—	(1,035,605)
Community services	332,267	—	—	—	(332,267)
Debt service-interest	24,039,638	—	—	—	(24,039,638)
Other outgo	28,599,042	446	5,717,195	—	(22,881,401)
Total governmental activities	<u>\$ 479,590,279</u>	<u>\$ 13,717</u>	<u>\$ 175,870,708</u>	<u>\$ 33,305,047</u>	<u>\$ (270,400,807)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					\$ 78,461,386
Taxes levied for debt service					26,119,846
Taxes levied for other specific purposes					23,352,836
Federal and state aid not restricted to specific purposes					178,809,002
Interest and investment earnings					3,426,038
Interagency revenue					10,380,146
Bond premium					7,454,326
Miscellaneous					10,058,896
Total general revenues					<u>\$ 338,062,476</u>
Change in net assets					\$ 67,661,669
Net assets-beginning					(10,358,961)
Restatements (Note 21)					15,549,393
Net assets-ending					<u>\$ 72,852,101</u>

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

Exhibit 3

Balance Sheet Governmental Funds June 30, 2006

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in county treasury (Note 2)	\$ 30,679,982	\$ 84,992,257	\$ 27,256,371	\$ 24,431,532	\$ 167,360,142
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)	802,544	—	—	100,647	903,191
Cash collections awaiting deposit (Note 2)	—	—	—	1,805,714	1,805,714
Accounts receivable (Note 4)	23,411,252	556,971	—	11,895,050	35,863,273
Due from grantor governments (Note 4)	—	—	—	70,123	70,123
Due from other funds (Note 5)	1,491,411	1,305,401	—	1,285,110	4,081,922
Stores inventories-supplies	—	—	—	188,109	188,109
Total assets	<u>\$ 56,673,739</u>	<u>\$ 86,854,629</u>	<u>\$ 27,256,371</u>	<u>\$ 39,776,285</u>	<u>\$ 210,561,024</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 17,193,182	\$ 8,230,976	\$ —	\$ 3,263,099	\$ 28,687,257
Due to other funds (Note 5)	1,321,057	—	—	2,675,582	3,996,639
Deferred revenue (Note 1-E)	12,037,452	—	—	767,905	12,805,357
Loss reserve (Note 18)	900,000	—	—	—	900,000
Total liabilities	<u>31,451,691</u>	<u>8,230,976</u>	<u>—</u>	<u>6,706,586</u>	<u>46,389,253</u>
Fund balances:					
Restricted for					
Reserve for revolving cash	\$ 150,000	\$ —	\$ —	\$ —	\$ 150,000
Reserve for stores	—	—	—	188,109	188,109
Reserve for all others	900,000	—	—	—	900,000
Legally restricted balance	18,736,383	—	—	860,891	19,597,274
Designated for economic uncertainties	1,422,817	—	—	—	1,422,817
Other designations	4,012,848	—	—	—	4,012,848
Undesignated/unappropriated	—	78,623,653	27,256,371	32,020,699	137,900,723
Total fund balances	<u>25,222,048</u>	<u>78,623,653</u>	<u>27,256,371</u>	<u>33,069,699</u>	<u>164,171,771</u>
Total liabilities and fund balances	<u>\$ 56,673,739</u>	<u>\$ 86,854,629</u>	<u>\$ 27,256,371</u>	<u>\$ 39,776,285</u>	<u>\$ 210,561,024</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, 2006

Total fund balances - governmental funds		\$ 164,171,771
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 \$679,251,178 and the accumulated depreciation is \$178,695,608		500,555,570
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.		(34,764,844)
To recognize accrued interest at year-end.		(10,632,828)
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	\$ (461,541,601)	
State school building loan payable	(126)	
Certificate of participation payable	(24,550,000)	
Emergency apportionment loan payable	(56,648,758)	
Compensated absences	(3,479,149)	
Charter school revolving loan	<u>(257,934)</u>	
Total long-term liabilities		<u>(546,477,568)</u>
Total net assets-governmental activities		<u>\$ 72,852,101</u>

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, 2006**

	Governmental Fund Types				Total Governmental Funds
	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	
Revenues:					
Revenue limit sources:					
State apportionments	\$ 138,609,752	\$ —	\$ —	\$ 15,833,887	\$ 154,443,639
Local apportionments	80,278,161	—	—	—	80,278,161
Federal	54,252,134	—	—	23,364,702	77,616,836
Other state	90,966,870	—	293,582	48,588,867	139,849,319
Other local revenue	37,066,041	2,071,434	26,151,449	22,320,742	87,609,666
Total revenues	<u>401,172,958</u>	<u>2,071,434</u>	<u>26,445,031</u>	<u>110,108,198</u>	<u>539,797,621</u>
Expenditures					
Instruction	219,261,440	—	—	22,831,525	242,092,965
Supervision of instruction	31,937,409	—	—	2,429,121	34,366,530
Instructional media and technology	3,557,028	—	—	43,740	3,600,768
School administration	31,158,806	—	—	4,732,465	35,891,271
Home to school transportation	9,778,846	—	—	—	9,778,846
Food Services	8,141	—	—	13,526,783	13,534,924
All other pupil services	22,106,618	—	—	137,561	22,244,179
Data processing services	5,796,830	—	—	—	5,796,830
All other general administration	15,705,664	—	—	2,934,841	18,640,505
Plant services	37,008,648	573,028	—	5,062,674	42,644,350
Facility acquisition and construction	2,343,693	54,349,059	—	33,357,974	90,050,726
Ancillary services	1,053,591	—	—	—	1,053,591
Community services	332,267	—	—	—	332,267
Debt service:					
Principal	2,832,949	—	4,934,771	2,669,179	10,436,899
Interest	1,058,398	—	18,661,186	976,675	20,696,259
Total expenditures	<u>383,940,328</u>	<u>54,922,087</u>	<u>23,595,957</u>	<u>88,702,538</u>	<u>551,160,910</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,232,630</u>	<u>(52,850,653)</u>	<u>2,849,074</u>	<u>21,405,660</u>	<u>(11,363,289)</u>
Other financing sources (uses)					
Operating transfers in (Note 5)	2,303,484	3,308,601	—	7,110,659	12,722,744
All other financing sources	—	—	7,454,326	—	7,454,326
Proceeds from sale of bonds	—	141,000,000	—	—	141,000,000
Transfer between agencies	(12,167,653)	—	—	(16,431,389)	(28,599,042)
Operating transfers out (Note 5)	(4,648,585)	(1,982,193)	—	(6,091,966)	(12,722,744)
Total other financing sources (uses)	<u>(14,512,754)</u>	<u>142,326,408</u>	<u>7,454,326</u>	<u>(15,412,696)</u>	<u>119,855,284</u>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>2,719,876</u>	<u>89,475,755</u>	<u>10,303,400</u>	<u>5,992,964</u>	<u>108,491,995</u>
Beginning Fund Balance	20,187,439	(16,623,479)	16,844,773	24,771,426	45,180,159
Other Restatements (Note 21)	2,314,733	5,771,377	108,198	2,305,309	10,499,617
Fund balances restated-beginning	<u>22,502,172</u>	<u>(10,852,102)</u>	<u>16,952,971</u>	<u>27,076,735</u>	<u>55,679,776</u>
Fund balances-ending	<u>\$ 25,222,048</u>	<u>\$ 78,623,653</u>	<u>\$ 27,256,371</u>	<u>\$ 33,069,699</u>	<u>\$ 164,171,771</u>

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

Exhibit 6

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in
Fund Balances—Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006**

Total net change in fund balances - governmental funds	\$ 108,491,995
<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	\$ 90,363,561
Depreciation expense	—
Net Capital Outlay	90,363,561
<p>The governmental funds report bond proceeds as other financing source, while repayment of bond principal is reported as an expenditure. Also, 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	\$ (141,000,000)
Repayment of bond principal	10,436,898
Net effect of bond debt	(130,563,102)
<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 issue costs amortized for the period is:</p>	
Issue costs incurred during the period	\$ —
Issue costs amortized for the period	—
Net debt issue costs	—
<p>Internal service 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>	
	2,712,593
<p>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.</p>	
	(10,632,828)
<p>To reverse prior year accrual of interest expense</p>	
	7,289,450
<p>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:</p>	
	—
Total change in net assets – governmental activities	\$ 67,661,669

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

Exhibit 7

**Statement of Fund Net Assets
Proprietary Funds
June 30, 2006**

	Internal Service Fund
	<u>Self-Insurance Fund</u>
Assets	
Cash in County Treasury	\$ 2,110,714
Cash with a Fiscal Agent/Trustee	500,000
Accounts Receivable	2,972,205
Due from Other Funds	190,600
Other Current Assets	<u>100,000</u>
Total assets	<u>5,873,519</u>
Liabilities	
Accounts Payable	507,673
Due to Other Funds	275,883
Self-Insurance Obligation	<u>39,854,807</u>
Total liabilities	<u>40,638,363</u>
Net Assets	
Undesignated/Unappropriated	<u>(34,764,844)</u>
Total net assets	<u>\$ (34,764,844)</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, 2006**

	Internal Service Fund
	Self-Insurance Fund
Operating revenues:	
In-district premiums/contributions	\$ 17,428,772
Total operating revenues	17,428,772
Operating expenses:	
Salaries and wages and related expenses	340,073
Materials and Supplies	4,428
Professional services and claims payments	14,340,121
Total operating expenses	14,684,622
Operating income (loss)	2,744,150
Non-operating revenue:	
Interest	(31,557)
Change in net assets	2,712,593
Total net assets-beginning	(38,954,959)
Other Restatements (Note 21)	1,477,522
Fund balances restated-beginning	(37,477,437)
Total net assets-ending	\$ (34,764,844)

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, 2006

	Internal Service Fund
	Self-Insurance Fund
Cash flows from operating activities	
Cash received from premiums	\$ 16,754,761
Cash paid for professional services and claims payments	(14,250,166)
Cash paid for salaries and wages and related expenses	(340,073)
Materials and supplies	(4,428)
Operating transfers out	
Other operating expenses	
	2,160,094
Net cash provided (used) by operating activities	2,160,094
Cash flow from investing activities:	
Interest income paid	(31,557)
	(31,557)
Net cash provided (used) by investing activities	(31,557)
Net increase (decrease) in cash	2,128,537
Cash—beginning	(17,823)
Cash—ending	\$ 2,110,714
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 2,744,150
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Increase in receivables	(2,678,257)
Decrease in due from other funds	395,841
Increase in accounts payable	89,955
Increase in due to other funds	130,883
Prior year correction	1,477,522
	1,477,522
Net cash provided (used) by operating activities	\$ 2,160,094

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

Exhibit 10

Statement of Fiduciary Net Assets June 30, 2006

	Payroll Trust/Warrant Pass-Through Fund
Assets	
Cash in County Treasury	\$ 16,408,251
Accounts Receivable	34,846
Total assets	\$ 16,443,097
Liabilities	
Accounts Payable	\$ 2,681,361
Due to Student Groups/Other Agencies	13,761,736
Total liabilities	\$ 16,443,097

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

Notes to the Financial Statements

Year Ended June 30, 2006

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 ten 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.

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.

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.

The *Bond Interest and Redemption Fund* is used for the repayment of bonds.

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 maintains six 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 Charter Schools Fund is used to account for revenues received and expenditures made by charter schools.
- The Special Reserve Fund for Other Than Capital Outlay Projects Fund 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 two nonmajor debt service funds.

- 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 to account for the accumulation of resources 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 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 Depository 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.

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 Class</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 \$0 and \$11,897,770 of Measure B parcel tax for the years ended June 30, 2005, and 2004, 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, 2006 consisted of the following:

Deposits:	
Cash on Hand	\$ 1,805,714
Cash in Banks	\$ 138,550
Cash in Revolving Fund	\$ 150,000
Pooled Funds:	
Cash in County Treasury	\$ 169,470,855
Cash With Fiscal Agent	\$ 1,403,191

Deposits – Custodial Credit Risk

The Federal Depository Insurance Corporation (FDIC) insures cash balances held in banks and revolving funds, up to \$100,000. At June 30, 2006, the carrying account of the revolving fund was \$150,000. Because the bank accounts were not properly reconciled, the bank balance could not be determined. 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 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 \$169,470,855 are carried at cost on the district books. The fair market value of the cash in this account as of June 30, 2006, as provided by the pool sponsor, was \$168,039,601. 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.

Because the County Office'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, 2006, 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

- \$903,191 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, 2006, 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, 2006, the district had no concentration of credit risk.

NOTE 3—EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2006, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
<u>Major Funds</u>	
General fund:	
Other outgo	\$ 235,032
Debt service-interest	\$ 813

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, 2006, interfund receivables and payables were as follows:

Fund	Due From	Due To
General fund	\$ 1,491,411	\$ 1,321,057
Charter schools	1,122,031	352,722
Adult education	4,219	6,795
Child development	—	297,001
Cafeteria	158,860	859,041
Building fund	1,305,401	—
Capital facilities	—	623
Special reserve fund for capital outlay projects	—	1,159,400
Self insurance	190,600	275,883
Total	\$ 4,272,522	\$ 4,272,522

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 2005-06 were as follow.

Funds	Transfers In	Transfers Out
General fund	\$ 2,303,484	\$ 4,648,585
Charter schools	1,504,741	—
Child development	—	591,408
Cafeteria	476,960	206,843
Deferred maintenance	1,982,193	—
Building fund	3,308,601	1,982,193
Capital facilities	—	5,293,715
Debt service fund	3,146,765	—
Total	\$ 12,722,744	\$ 12,722,744

Interfund transfers consisted of the following items:

- Transfer of \$1,504,741 from the general fund to the charter school fund for additional support.
- Transfer of \$1,982,193 from the general fund to the deferred maintenance fund for state matching.
- Transfer of \$114,448 from the child development fund to the general fund for state loan repayment.
- Transfer of \$1,161,651 from the general fund to the debt service fund for debt payments.
- Transfer of \$206,843 from the cafeteria fund to the general fund for state loan repayment.
- Transfer of \$476,960 from the child development fund to the cafeteria fund for child care food program.
- Transfer of \$1,982,193 from the building fund to the general fund for state matching.
- Transfer of \$3,308,601 from a subfund within the capital facilities fund to a subfund within the building fund.
- Transfer of \$1,985,114 from the capital facilities fund to the debt service fund for debt payment.

NOTE 6—CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2006, is shown below:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 17,661,940	\$ —	\$ —	\$ 17,661,940
Work-in-process	100,905,463	78,006,046	—	178,911,509
Total capital assets, not being depreciated	<u>118,567,403</u>	<u>78,006,046</u>	<u>—</u>	<u>196,573,449</u>
Capital assets being depreciated:				
Buildings	425,393,202	89,798,349	(80,806,296)	434,385,255
Improvements	30,450,854	2,830,145	(85,280)	33,195,719
Equipment	14,561,439	535,318	—	15,096,757
Total capital assets, being depreciated	<u>470,405,495</u>	<u>93,163,812</u>	<u>(80,891,576)</u>	<u>482,677,731</u>
Less accumulated depreciation for:				
Buildings	(161,337,511)	—	8,801,285	(152,536,226)
Improvements	(17,188,162)	—	873,236	(16,314,926)
Equipment	(11,330,101)	—	1,485,645	(9,844,456)
Total accumulated depreciation	<u>(189,855,774)</u>	<u>—</u>	<u>11,160,166</u>	<u>(178,695,608)</u>
Total capital assets, being depreciated, net	<u>280,549,721</u>	<u>93,163,812</u>	<u>(69,731,410)</u>	<u>303,982,123</u>
Governmental activities capital assets, net	<u>\$ 399,117,124</u>	<u>\$ 171,169,858</u>	<u>\$ (69,731,410)</u>	<u>\$ 500,555,572</u>

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, 2025. 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 2005 issuance, net of \$1,891,830 issuance cost.

The total remaining balance for all bonds outstanding related to Measure C and Measure A as of June 30, 2006, was \$455,392,974. In addition, accreted interest as of June 30, 2006, on the CABs of \$8,358,770 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, 2006, \$27,066,597 of bonds outstanding are considered defeased.

The outstanding general obligation bond debt of the district as of June 30, 2006, is as follows:

Bond	Interest Rate	Date of Issue	Maturity Date	Amount of Original Issue	Outstanding July 1, 2005	Issued Current Year	Redeemed During Year	Bonds Outstanding June 30, 2006
Measure C:								
Series B (CABs)	4.4-8.10%	07/30/1997	08/01/2021	\$ 9,999,977	\$ 6,327,206	\$ —	\$ 992,880	\$ 5,334,326
Accreted Interest		—	—	—	3,093,423	423,719	447,120	3,070,022
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	7,642,933	—	551,450	7,091,483
Accreted Interest		—	—	—	3,190,425	512,345	213,550	3,489,220
Series D (CABs)	4.6-6.0%	05/20/1998	08/01/2022	5,999,277	3,688,839	—	225,440	3,463,399
Accreted Interest		—	—	—	1,652,632	266,452	119,560	1,799,524
Series E (CIBs)	4.0-7.0%	05/20/1999	08/01/2023	10,000,000	9,440,000	—	205,000	9,235,000
Series F (CIBs)	5.25-6.0%	04/01/2000	08/01/2024	75,000,000	62,875,000	—	1,000,000	61,875,000
Measures C and A:								
Series 2001 (CIBs)	4.25-5.50%	06/01/2001	08/01/2025	100,215,000	93,950,000	—	1,405,000	92,545,000
Series 2002 (CIBs)	2.4-5.25%	03/01/2002	08/01/2025	100,000,000	100,000,000	—	555,000	99,445,000
Series 2005 (CIBs)	3.0-5.0%	08/01/2005	08/01/2030	141,000,000	—	141,000,000	—	141,000,000
Totals				\$478,175,992	\$318,905,458	\$142,202,516	\$5,715,000	\$455,392,974

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements (See Findings 06-17 and 06-21).

The annual requirements to amortize the 1997 Series B CABs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 939,514	\$ 500,486	\$ 1,440,000
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
2012-2015	583,413	666,587	1,250,000
2016-2020	—	—	—
2021-2022	1,033,614	2,996,386	4,030,000
Totals	<u>\$ 5,334,326</u>	<u>\$ 6,245,674</u>	<u>\$ 11,580,000</u>

Accreted interest accrued of \$3,070,022 has been reflected in the long-term debt balance.

The annual requirements to amortize the 1998 Series C CABs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 703,191	\$ 321,809	\$ 1,025,000
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
2012-2013	2,432,002	2,487,998	4,920,000
Totals	<u>\$ 7,091,483</u>	<u>\$ 5,573,517</u>	<u>\$ 12,665,000</u>

Accreted interest accrued of \$3,489,220 has been reflected in the long-term debt balance.

The annual requirements to amortize the 1998 Series C CIBs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ —	\$ 1,431,594	\$ 1,431,594
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
2012-2016	9,805,000	6,455,925	16,260,925
2017-2020	17,240,000	1,918,601	19,158,601
Totals	<u>\$ 27,045,000</u>	<u>\$ 15,532,496</u>	<u>\$ 42,577,496</u>

The annual requirements to amortize the 1998 Series D CABs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 24,638	\$ 15,362	\$ 40,000
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
2012-2016	439,184	465,816	905,000
2017-2021	1,103,148	2,496,852	3,600,000
2022-2023	1,030,183	2,709,817	3,740,000
Totals	<u>\$ 3,463,399</u>	<u>\$ 6,241,601</u>	<u>\$ 9,705,000</u>

Accreted interest accrued of \$1,799,524 has been reflected in the long-term debt balance.

The annual requirements to amortize the 1999 Series E CIBs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 225,000	\$ 457,446	\$ 682,446
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
2012-2016	1,265,000	2,064,735	3,329,735
2017-2021	3,110,000	1,613,425	4,723,425
2022-2024	4,310,000	349,725	4,659,725
Totals	<u>\$ 9,235,000</u>	<u>\$ 6,269,411</u>	<u>\$ 15,504,411</u>

The annual requirements to amortize the 2000 Series F CIBs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 755,000	\$ 3,399,656	\$ 4,154,656
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
2012-2016	11,050,000	14,326,581	25,376,581
2017-2021	19,070,000	10,219,322	29,289,322
2022-2024	26,445,000	3,187,091	29,632,091
Totals	<u>\$ 61,875,000</u>	<u>\$ 44,232,133</u>	<u>\$ 106,107,133</u>

The annual requirements to amortize the 2001 Series 2001 CIBs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 1,355,000	\$ 4,684,874	\$ 6,039,874
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
2012-2016	13,025,000	20,621,931	33,646,931
2017-2021	24,145,000	16,056,181	40,201,181
2022-2026	49,270,000	7,493,951	56,763,951
Totals	<u>\$ 92,545,000</u>	<u>\$ 67,038,631</u>	<u>\$ 159,583,631</u>

The annual requirements to amortize the 2002 Series 2002 CIBs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 1,175,000	\$ 4,946,288	\$ 6,121,288
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
2012-2016	9,400,000	22,883,126	32,283,126
2017-2021	20,340,000	19,248,051	39,588,051
2022-2026	42,190,000	11,606,820	53,796,820
2027	21,475,000	536,875	22,011,875
Totals	<u>\$ 99,445,000</u>	<u>\$ 78,553,649</u>	<u>\$ 177,998,649</u>

The annual requirements to amortize the 2005 Series 2005 CIBs outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 400,000	\$ 6,646,300	\$ 7,046,300
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
2012-2016	28,775,000	28,499,375	57,274,375
2017-2021	26,615,000	21,545,275	48,160,275
2022-2026	33,975,000	14,598,625	48,573,625
2027-2031	43,485,000	5,173,500	48,658,500
Totals	<u>\$ 141,000,000</u>	<u>\$102,678,925</u>	<u>\$ 243,678,925</u>

Accreted Interest Accrued, Capital Appreciation Certificates

The following represents interest accruing for the capital appreciation bonds (CABs) as of June 30, 2006. The total accreted value (accrued interest) is the difference between the value of the CABs at June 30, 2006, and the value of the CABs at issuance. The accreted value from July 1, 2006, to June 30, 2007, is calculated by dividing the total accreted value by the number of certificates outstanding as of June 30, 2006.

<u>Certificates Maturing August 1</u>	<u>Accreted Value from July 1, 2004 to June 30, 2006</u>	<u>Certificates Outstanding as of June 30, 2006</u>	<u>Total Accreted Value (Accrued Interest)</u>
<u>Series B CABs</u>			
2006	\$ 1,717.62	288	\$ 494,675
2007	1,663.23	300	498,969
2008	1,606.82	270	433,841
2009	1,548.64	230	356,187
2010	1,489.14	172	256,132
2011	1,428.59	155	221,431
2012	1,367.40	77	105,290
2013	1,305.84	18	23,505
2021	843.67	806	679,998
Totals			<u>3,070,028</u>
<u>Series C CABs</u>			
2006	1,550.23	205	317,797
2007	1,504.84	258	388,249
2008	1,457.28	310	451,757
2009	1,417.19	362	513,023
2010	1,357.03	414	561,810
2011	1,304.93	466	608,097
2012	1,251.90	518	648,484
Totals			<u>3,489,217</u>
<u>Series D CABs</u>			
2006	1,895.22	8	15,162
2007	1,468.30	86	126,274
2008	1,435.81	73	104,814
2009	1,389.09	80	111,127
2010	1,348.91	45	60,701
2011	1,304.93	70	91,345
2012	1,251.90	70	87,633
2013	1,193.54	41	48,935
2020	828.46	720	596,491
2022	744.71	748	557,043
Totals			<u>1,799,525</u>
Total CABs accreted interest			8,358,770
Less accrued current CABs accreted interest payable			<u>(422,286)</u>
Accrued long-term CABs accreted interest payable			<u>\$ 7,936,484</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 fiscal year 2003-04, the fiscal year following the year the loan was made.

On December 1, 2005, the State of California refinanced \$59,850,000 of the district's loan through the issuance of State School Fund Apportionment Lease Revenues Bonds. The district will make interest payments each February 15 and August 15 and a principal payment each August 15 to I-Bank. Pursuant to Education Code Section 41329.57, the state will make whole payments, which is the difference between original interest rate of 1.778% and I-Bank interest rate (daily variable rate).

The annual requirements to amortize the emergency state apportionment loan are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ —	\$ 1,064,134	\$ 1,064,134
2008	2,425,000	1,042,575	3,467,575
2009	2,475,000	999,014	3,474,014
2010	2,650,000	953,453	3,603,453
2011	2,750,000	905,447	3,655,447
2012-2016	15,750,000	3,729,358	19,479,358
2017-2021	19,675,000	2,160,047	21,835,047
2022-2024	14,125,000	384,269	14,509,269
Totals	<u>\$ 59,850,000</u>	<u>\$ 11,238,297</u>	<u>\$ 71,088,297</u>

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. (See Finding 06-18.)

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, 2006, \$13,045,000 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, 2006, \$8,380,000 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, 2006, \$3,125,000 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, 2006, 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>
2007	\$ 2,635,000	\$ 723,634	\$ 3,358,634
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
2012-2016	6,325,000	1,007,720	7,332,720
2017-2021	2,710,000	486,339	3,196,339
2022-2026	2,625,000	118,565	2,743,565
Totals	<u>\$ 24,550,000</u>	<u>\$ 4,020,605</u>	<u>\$ 28,570,605</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, 2006. 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.

It is important to note that after recognizing only the workers' compensation obligation, the Self-Insurance Fund ended the June 30, 2006 fiscal year with a deficit ending balance of \$(34,764,844). (See Finding 06-12.)

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 \$80,883 as of June 30, 2006.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 33,578	\$ 3,218	\$ 36,796
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>\$ 80,883</u>	<u>\$ 8,888</u>	<u>\$ 89,771</u>

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. (See Finding 06-16.)

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>	
2007	\$ 50,000	\$ 2,158	\$ 83,333	\$ 1,096	\$ 136,587
2008	50,000	1,408	—	—	51,408
2009	50,000	658	—	—	50,658
Totals	<u>\$ 150,000</u>	<u>\$ 4,224</u>	<u>\$ 83,333</u>	<u>\$ 1,096</u>	<u>\$ 238,653</u>

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. See Finding 06-16.

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 total long-term portion of compensated absences amount was \$3,479,149, as of June 30, 2006.

NOTE 14—LONG-TERM DEBT—SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2006, is shown below:

Governmental Activities	Balance July 1, 2005	Additions	Deductions	Adjustment	Balance June 30, 2006	Due Within One Year
Bonds and notes payable:						
General obligation bonds:						
Current interest bonds	\$ 293,310,000	\$ 141,000,000	\$ (3,165,000)	\$ —	\$ 431,145,000	\$ 3,910,000
Capital appreciation bonds	25,595,458	1,202,516	(2,550,000)	—	24,247,974	2,505,000
State school building loans	36,972	—	(32,799)	76,709	80,882	33,578
Certificates of participation	27,035,000	—	(2,485,000)	—	24,550,000	2,635,000
Emergency apportionment loan	59,481,707	3,201,242	(2,832,949)	—	59,850,000	—
Total bonds and notes payable	405,459,137	145,403,758	(11,065,748)	76,709	539,873,856	9,083,578
Other liabilities:						
Self-insurance obligation	39,854,807	—	—	3,396,000	43,250,807	—
Compensated absences	3,102,252	376,898	—	—	3,479,150	—
Charter school revolving loan	405,267	—	(147,333)	(24,601)	233,333	133,333
Other general long-term debt	—	—	—	—	—	—
Total other liabilities	43,362,326	376,898	(147,333)	3,371,399	46,963,290	133,333
Governmental activities long-term liabilities	\$ 448,821,463	\$ 145,780,656	\$ (11,213,081)	\$ 3,448,108	\$ 586,837,146	\$ 9,216,911

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. See Finding 06-17.

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

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

Year Ended June 30	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
2007	\$ 25,476,158	\$ 2,505,000	\$ 36,796	\$ 3,358,634	\$ 43,250,807	\$ 1,064,134	\$ 3,479,149	\$ 136,587	\$ 79,307,265
2008	24,707,959	3,220,000	15,525	3,171,477	—	3,467,575	—	51,408	34,633,944
2009	26,123,779	3,265,000	15,525	3,207,391	—	3,474,014	—	50,658	36,136,367
2010	27,234,867	3,360,000	15,325	3,247,926	—	3,603,453	—	—	37,461,571
2011	28,518,367	3,155,000	4,811	2,312,553	—	3,655,447	—	—	37,646,178
Thereafter	613,389,115	18,445,000	1,789	13,272,624	—	55,823,674	—	—	700,932,202
Subtotal	745,450,245	33,950,000	89,771	28,570,605	43,250,807	71,088,297	3,479,149	238,653	926,117,527
Less amounts representing interest	(314,305,245)	(9,702,022)	(8,888)	(4,020,605)	—	(11,238,297)	—	(5,320)	(339,280,377)
Obligation as of June 30, 2006	\$431,145,000	\$24,247,978	\$ 80,883	\$24,550,000	\$ 43,250,807	\$ 59,850,000	\$ 3,479,149	\$ 233,333	\$586,837,150

This schedule is compiled from documentation provided. However, this schedule does not agree to the financial statements. (See Finding 06-04, 06-12, 06-16, 06-17, 06-18, and 06-19.)

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 coverage for individual claims 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/Alameda Regional Occupation Program (ROP) was formed by a joint powers agreement between the Oakland Unified School District and the Alameda Unified School District (the participant districts). 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, CA 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 CONTINGENCIES

State 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.

2005 State Compliance Findings

The district's prior year (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, 2006. That case involved the district's appeal of an unfair labor practices decision. This case was disclosed in three prior year audit reports and an accrual for the estimated potential loss of \$750,000 was recorded. The ruling adverse to the district is now final and the parties to the suit are working on compliance with the Public Employment Relations Board's (PERB) decision, which includes calculation of employees' losses. The district's attorney in this matter has now provided an estimated range of the losses from \$750,000 to \$900,000. Accordingly, the district's financial statements as of June 30, 2006, have been adjusted to the estimated maximum of \$900,000 for the contingency relative to the Self-Insurance Fund.

Cerna vs. Oakland Unified

This case arises out of a pedestrian traffic fatality that occurred two blocks from an Oakland elementary school. On March 30, 2005, the Court granted the district's motion for summary judgment on the grounds OUSD owed no legal duty to plaintiffs because Education Code section 44808 grants school district immunity from liability for injury to student outside of school property. Plaintiffs have appealed the decision. The liability is deemed possible but not likely.

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, CA 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 2005-06 was 9.17% 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, 2006, 2005, and 2004, were \$5,637,639, \$7,580,820, and \$6,334,446, 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, CA 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 fiscal year 2005-06 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, 2006, 2005, and 2004, were \$13,987,049, \$14,440,169, and \$14,825,948, 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, CA 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, 2006, was \$409,911.

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 towards 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, 2006, there were 78 retirees receiving benefits. Such payments for retired employees totaled \$416,928 during the year ended June 30, 2006.

NOTE 21—AUDIT ADJUSTMENTS/RESTATEMENTS

	General Fund	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
Reconciliation of restatements:					
Adjust cash for unreconcilable difference	\$ 1,636,068	\$ —	\$ —	\$ —	\$ —
ACOE/OUSD Instr	(72,597)	—	—	—	—
Reclass revenue to correct org key	274,357	—	—	—	—
Restate fiscal year 03-04 revenue	(156,600)	—	—	—	—
To correct accounts receivable for excess revenue	115,595	—	—	—	—
To correct technical check error	(23,618)	—	—	—	—
To correct account code	150,000	—	—	—	—
To correct SACS error	(9,653)	—	—	—	—
To reclass 04-05 revenue	550,390	—	—	—	—
To reclass excess revenue	2,409	—	—	—	—
To reclass accounts receivable to revenue	23,618	—	—	—	—
To reclass to correct org key	1,181,716	—	—	1,082,158	—
To reclass audit adjustment to restatement	—	—	1,201,373	—	—
To reconcile 04-05 accounts receivable	(726,948)	—	—	—	—
To reconcile 05-06 accounts receivable invoice	(12,419)	—	—	—	—
To reconcile cash in bank	(119,352)	—	—	—	(21,881)
To record prior year lottery adjustment	(351,245)	—	—	—	—
To restate 03-04 revenue in 2006	838	—	—	—	—
To restate cash to match bank balance	(15,400)	—	—	—	—
To restate prior year expense in Fund 21	—	—	—	—	—
To restate cash in bank prior year	—	—	—	(72,126)	—
To restate revenue to resource 6300	(61,311)	—	—	—	—
To reverse 03-04 accrual	—	88,115	—	—	—
To reverse 04-05 accrual	—	—	—	—	—
Total restatement-statement of activities	(61,527)	—	—	—	—
To write-off to restatement	(9,589)	—	—	—	—
Interest to be credited to GP at close	—	—	—	4,780	—
Test	—	—	3,775	—	—
To reclass accounts payable balance to restatement	—	—	—	—	—
To restate prior year dental contribution	—	—	—	—	—
Total restatements-governmental funds	2,314,732	88,115	1,205,148	1,014,812	(21,881)

	General Fund	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
Other worksheet adjustment - GOB	(6,570,914)	—	—	—	—
- compensated absences	(376,897)	—	—	—	—
- accumulated depreciation	11,160,166	—	—	—	—
- improvement of sites	(85,280)	—	—	—	—
- equipment	(554,820)	—	—	—	—
Subtotal restatement - other	3,572,255	—	—	—	—
Total restatement-statement of activities	\$ 5,886,987	\$ 88,115	\$ 1,205,148	\$ 1,014,812	\$ (21,881)

	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Self-Insurance Fund	Total
Reconciliation of restatements:					
Adjust cash for unreconcilable difference	\$ —	\$ —	\$ —	\$ —	1,636,068
ACOE/OUSD Instr	—	—	—	—	(72,597)
Reclass revenue to correct org key	—	—	—	—	274,357
Restate fiscal year 03-04 revenue	—	—	—	—	(156,600)
To correct accounts receivable for excess revenue	—	—	—	—	115,595
To correct technical check error	—	—	108,198	—	84,580
To correct account code	—	—	—	—	150,000
To correct SACS error	—	—	—	—	(9,653)
To reclass 04-05 revenue	—	—	—	—	550,390
To reclass excess revenue	—	—	—	—	2,409
To reclass accounts receivable to revenue	—	—	—	—	23,618
To reclass to correct org key	—	—	—	—	2,263,874
To reclass audit adjustment to restatement	—	—	—	—	1,201,373
To reconcile 04-05 accounts receivable	—	—	—	—	(726,948)
To reconcile 05-06 accounts receivable invoice	—	—	—	—	(12,419)
To reconcile cash in bank	—	—	—	(616)	(141,849)
To record prior year lottery adjustment	—	—	—	—	(351,245)
To restate 03-04 revenue in 2006	—	—	—	—	838
To restate cash to match bank balance	—	—	—	—	(15,400)
To restate prior year expense in Fund 21	5,790,492	—	—	—	5,790,492
To restate cash in bank prior year	—	—	—	—	(72,126)
To restate revenue to resource 6300	—	—	—	—	(61,311)
To reverse 03-04 accrual	—	—	—	—	88,115
To reverse 04-05 accrual	(19,115)	19,115	—	—	—
Total restatement-statement of activities	—	—	—	—	(61,527)
To write-off to restatement	—	—	—	—	(9,589)
Interest to be credited to GP at close	—	—	—	—	4,780
Test	—	—	—	—	3,775
To reclass accounts payable balance to restatement	—	—	—	(13,233)	(13,233)
To restate prior year dental contribution	—	—	—	1,491,371	1,491,371
Total restatements-governmental funds	5,771,377	19,115	108,198	1,477,522	11,977,138
Other worksheet adjustment - GOB	—	—	—	—	(6,570,914)
- compensated absences	—	—	—	—	(376,897)
- accumulated depreciation	—	—	—	—	11,160,166
- improvement of sites	—	—	—	—	(85,280)
- equipment	—	—	—	—	(554,820)
Subtotal restatement - other	—	—	—	—	3,572,255
Total restatement-statement of activities	\$ 5,771,377	\$ 19,115	\$ 108,198	\$ 1,477,522	\$ 15,549,393

NOTE 22—GOING CONCERN

As of June 30, 2006, the district had a total general fund balance of \$25,222,048. Of this amount, \$18,736,383 was restricted, leaving an available unrestricted reserve of \$6,485,665. Of that amount, \$150,000 was reserved for the revolving cash fund and \$4,912,848 was reserved for other purposes, leaving \$1,422,817 designated for economic uncertainties. Based on state guidelines, available unrestricted reserves for a district this size are recommended at 2% of total outgo of the general fund, which equates to \$8,015,131. At June 30, 2006, the district's reserve amount was \$6,592,314 below the recommended level of the amount reserved for economic uncertainties.

The 2006-07 budget indicates a deficit spending of \$1,970,900. There was no undesignated fund balance or available reserves for the budgeted fund balance for the 2006-07 fiscal year. The district published its Multi-Year Fiscal Recovery Plan (MYFRP) on July 22, 2005. This is a plan of action for balancing the district's budget and projects a positive unrestricted fund balance after meeting the state's minimum reserve requirements by FY 2008-09.

NOTE 23—SUBSEQUENT EVENTS

There have been several actions taken or prompted by the state administrator/board of education since the end of the 2005-06 fiscal year that will have a significant financial impact on the district and on the resulting financial reports in the future fiscal years:

Issuance of General Obligation Bonds

June 6, 2006—Measure "B" school bond election ordered and authorized by district resolution 0506-0096. Voters of the City of Oakland approved the \$435 million School Facilities Bond to provide financing to repair and modernize elementary, middle and high schools.

November 9, 2006—\$130 million Measure "B" Bond Issuance. Receipt of \$133,670,397 from the issuance of Oakland Unified School District General Obligation Bonds, Election of 2006, Series 2006. Based on Resolution 0607-0088 enacted October 25, 2006.

June 13, 2007—\$300 million Refunding Bond Issuance. State administrator authorized the issuance and sale of general obligation refunding bonds in an aggregate principal not to exceed \$300 million for the refunding of bonds previously issued for Measures A and C. Based on Resolution 0607-0213 enacted June 13, 2007.

Additional Disbursement from State Emergency Apportionment Loan

In June 2006, the state administrator approved the final \$35 million disbursement of the State Emergency Apportionment Loan; however, this disbursement was not received until July 2006. This disbursement is in addition to the initial \$65 million in loan funds disbursed in June 2003. Together, they exhaust the \$100 million of emergency loan funds made available to the district pursuant to Senate Bill 39.

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.

Other Audits

Bond audit—District management stated that the results of a bond audit had been resolved requiring that it repay a total of \$16 million. The district reports that \$10 million of this amount has been paid with the balance of \$6 million schedule to be repaid over the next 20 years in annual installments of \$304,406.

Mandated cost audit—The results of a mandated cost audit were also resolved, which requires an amount of \$873,636 be repaid in fiscal year 2007-08.

Further information regarding these audits can be obtained from the district at 1025 Second Avenue, Oakland, CA 94606.

**REQUIRED SUPPLEMENTARY INFORMATION
SECTION**

Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual General Fund Year Ended June 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue limit sources:				
State apportionments	\$ 141,504,960	\$ 152,623,268	\$ 138,609,752	\$ (14,013,516)
Local apportionments	81,954,969	88,394,323	80,278,161	(8,116,162)
Federal	55,754,760	71,243,727	54,252,134	(16,991,593)
Other state	83,773,322	96,264,158	90,966,870	(5,297,288)
Other local revenue	31,034,528	36,981,415	37,066,041	84,626
Total revenues	394,022,539	445,506,891	401,172,958	(44,333,933)
Expenditures:				
Certificated salaries	162,597,041	161,953,688	160,880,528	1,073,160
Classified salaries	53,451,643	56,040,327	53,567,939	2,472,388
Employee benefits	75,059,401	75,198,637	73,980,483	1,218,154
Books and supplies	40,270,951	43,244,922	23,347,681	19,897,241
Services and other operating expenditures	49,198,108	82,410,618	68,707,758	13,702,860
Capital outlay	2,013,600	2,546,958	2,146,710	400,248
Other outgo	9,079,281	11,932,621	12,167,653	(235,032)
Transfer of indirect costs	(1,984,374)	(2,101,270)	(2,582,119)	480,849
Debt service:				
Principal	2,832,949	3,890,534	2,832,949	1,057,585
Interest	1,251,369	1,057,585	1,058,398	(813)
Total expenditures	393,769,969	436,174,620	396,107,980	40,066,640
Excess (deficiency) of revenues over (under) expenditures	252,570	9,332,271	5,064,978	(4,267,293)
Other financing sources (uses)				
Operating transfers in	2,195,643	2,246,260	2,303,484	57,224
Operating transfers out	(3,772,888)	(4,860,573)	(4,648,585)	211,988
Total other financing sources (uses)	(1,577,245)	(2,614,313)	(2,345,101)	269,212
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(1,324,675)	6,717,958	2,719,877	(3,998,081)
Fund balances - beginning	20,187,439	20,187,439	20,187,439	—
Restatements (Note 21)	—	—	2,314,733	2,314,733
Fund balances restated-beginning	20,187,439	20,187,439	22,502,172	2,314,733
Fund balances-ending	\$ 18,862,764	\$ 26,905,397	\$ 25,222,049	\$ (1,683,348)

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, 2006

	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	\$ (4,456,691)	\$ 519,453	\$ 4,784,770	\$ 5,504,047	\$ 432,876	\$ 64,123	\$ 6,848,578
Cash Collections Awaiting Deposit	1,480,844	324,870	—	—	—	—	1,805,714
Accounts Receivable	4,423,773	727,647	2,230,754	21,685	308,373	467	7,712,699
Due from Grantor Governments	70,123	—	—	—	—	—	70,123
Due from Other Funds	158,860	—	4,218	—	1,122,031	—	1,285,109
Stores inventories-supplies	188,109	—	—	—	—	—	188,109
Total assets	\$ 1,865,018	\$ 1,571,970	\$ 7,019,742	\$ 5,525,732	\$1,863,280	\$ 64,590	\$ 17,910,332
Liabilities and fund balances							
Liabilities:							
Accounts Payable	\$ 335,730	\$ 215,980	\$ 590,217	\$ 502,703	\$1,415,774	\$ —	\$ 3,060,404
Due to Other Funds	859,041	297,001	6,795	—	352,722	—	1,515,559
Deferred Revenue	—	10,881	757,024	—	—	—	767,905
Total liabilities	1,194,771	523,862	1,354,036	502,703	1,768,496	—	5,343,868
Fund balances:							
Restricted for:							
Reserve for Stores	188,109	—	—	—	—	—	188,109
Legally Restricted Balance	—	860,891	—	—	—	—	860,891
Undesignated/Unappropriated	482,138	187,217	5,665,706	5,023,029	94,784	64,590	11,517,464
Total fund balances	670,247	1,048,108	5,665,706	5,023,029	94,784	64,590	12,566,464
Total liabilities and fund balances	\$ 1,865,018	\$ 1,571,970	\$ 7,019,742	\$ 5,525,732	\$1,863,280	\$ 64,590	\$ 17,910,332

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, 2006**

	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	\$ —	\$ —	\$ 12,007,121	\$ —	\$ 3,826,766	\$ —	\$ 15,833,887
Federal	11,792,234	8,809,846	1,547,815	—	55,407	—	22,205,302
Other state	771,413	11,740,206	294,034	2,066,052	1,123,677	—	15,995,382
Other local revenue	1,647,364	629,317	278,032	115,396	10,380,146	2,018	13,052,273
Total revenues	14,211,011	21,179,369	14,127,002	2,181,448	15,385,996	2,018	67,086,844
Expenditures:							
Certificated salaries	—	7,915,572	7,119,188	—	—	—	15,034,760
Classified salaries	4,500,872	4,958,925	1,190,375	—	—	—	10,650,172
Employee benefits	1,943,700	5,515,792	2,355,363	—	—	—	9,814,855
Books and supplies	6,905,679	403,513	804,062	22,049	—	—	8,135,303
Services and other operating expenditures	208,235	649,528	669,104	3,584,791	352,722	—	5,464,380
Capital outlay	—	—	29,454	—	—	—	29,454
Other outgo	—	—	—	—	16,431,389	—	16,431,389
Transfer of indirect costs	722,685	1,284,990	574,444	—	—	—	2,582,119
Debt service:							
Principal	—	—	—	—	147,333	—	147,333
Interest	—	—	—	—	5,254	—	5,254
Total expenditures	14,281,171	20,728,320	12,741,990	3,606,840	16,936,698	—	68,295,019
Excess (deficiency) of revenues over (under) expenditures	(70,160)	451,049	1,385,012	(1,425,392)	(1,550,702)	2,018	(1,208,175)
Operating transfers in	476,960	—	—	1,982,193	1,504,741	—	3,963,894
Operating transfers out	(206,843)	(591,408)	—	—	—	—	(798,251)
Total other financing sources (uses)	270,117	(591,408)	—	1,982,193	1,504,741	—	3,165,643
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	199,957	(140,359)	1,385,012	556,801	(45,961)	2,018	1,957,468
Beginning fund balance	492,171	173,655	3,075,546	4,466,228	52,631	62,572	8,322,803
Other restatements (Note 21)	(21,881)	1,014,812	1,205,148	—	88,114	—	2,286,193
Fund balances restated-beginning	470,290	1,188,467	4,280,694	4,466,228	140,745	62,572	10,608,996
Fund balances-ending	\$ 670,247	\$ 1,048,108	\$ 5,665,706	\$ 5,023,029	\$ 94,784	\$ 64,590	\$ 12,566,464

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, 2006

	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	\$ 4,233,427	\$ 3,919,054	\$ 7,473,801	\$ 1,264,612	\$ 16,890,894
Accounts Receivable	3,753,031	28,619	240,780	9,235	4,031,665
Total assets	<u>\$ 7,986,458</u>	<u>\$ 3,947,673</u>	<u>\$ 7,714,581</u>	<u>\$ 1,273,847</u>	<u>\$ 20,922,559</u>
Liabilities and fund balances					
Liabilities:					
Accounts Payable	\$ 202,695	\$ —	\$ —	\$ —	\$ 202,695
Due to Other Funds	623	—	—	1,159,400	1,160,023
Total liabilities	<u>203,318</u>	<u>—</u>	<u>—</u>	<u>1,159,400</u>	<u>1,362,718</u>
Fund balances:					
Restricted for:					
Undesignated/Unappropriated	7,783,140	3,947,673	7,714,581	114,447	19,559,841
Total fund balances	<u>7,783,140</u>	<u>3,947,673</u>	<u>7,714,581</u>	<u>114,447</u>	<u>19,559,841</u>
Total liabilities and fund balances	<u>\$ 7,986,458</u>	<u>\$ 3,947,673</u>	<u>\$ 7,714,581</u>	<u>\$ 1,273,847</u>	<u>\$ 20,922,559</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, 2006**

	Capital Facilities Fund	State School Building Lease- Purchase Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Totals
Revenues:					
Federal	\$ —	\$ —	\$ —	\$ 1,159,400	\$ 1,159,400
Other state	—	—	32,593,106	—	32,593,106
Other local revenue	7,929,832	122,074	711,941	39,554	8,803,401
Total revenues	<u>7,929,832</u>	<u>122,074</u>	<u>33,305,047</u>	<u>1,198,954</u>	<u>42,555,907</u>
Expenditures:					
Classified salaries	1,951	—	—	—	1,951
Employee benefits	261	—	—	—	261
Books and supplies	546,972	—	—	—	546,972
Services and other operating expenditures	35,744	—	—	—	35,744
Capital outlay	831,088	—	30,770,227	1,159,400	32,760,715
Total expenditures	<u>1,416,016</u>	<u>—</u>	<u>30,770,227</u>	<u>1,159,400</u>	<u>33,345,643</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,513,816</u>	<u>122,074</u>	<u>2,534,820</u>	<u>39,554</u>	<u>9,210,264</u>
Operating transfers in	—	—	—	—	—
Operating transfers out	<u>(5,293,715)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,293,715)</u>
Total other financing sources (uses)	<u>(5,293,715)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,293,715)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>1,220,101</u>	<u>122,074</u>	<u>2,534,820</u>	<u>39,554</u>	<u>3,916,549</u>
Beginning fund balance	6,543,924	3,825,599	5,179,761	74,893	15,624,177
Other restatements (Note 21)	19,115	—	—	—	19,115
Fund balances restated-beginning	<u>6,563,039</u>	<u>3,825,599</u>	<u>5,179,761</u>	<u>74,893</u>	<u>15,643,292</u>
Fund balances-ending	<u>\$ 7,783,140</u>	<u>\$ 3,947,673</u>	<u>\$ 7,714,581</u>	<u>\$ 114,447</u>	<u>\$ 19,559,841</u>

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, 2006**

	Debt Service Fund	Tax Override Fund	Totals
Assets			
Cash in County Treasury	\$ 657,239	\$ 34,822	\$ 692,061
Cash with a Fiscal Agent/Trustee	100,647	—	100,647
Accounts Receivable	150,250	436	150,686
Total assets	<u>\$ 908,136</u>	<u>\$ 35,258</u>	<u>\$ 943,394</u>
Liabilities and fund balances			
Liabilities:			
Accounts Payable	\$ —	\$ —	\$ —
Due to Other Funds	—	—	—
Total liabilities	—	—	—
Fund balances:			
Restricted for			
Undesignated/Unappropriated	908,136	35,258	943,394
Total fund balances	<u>908,136</u>	<u>35,258</u>	<u>943,394</u>
Total liabilities and fund balances	<u>\$ 908,136</u>	<u>\$ 35,258</u>	<u>\$ 943,394</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, 2006**

	Debt Service Fund	Tax Override Fund	Totals
Revenues:			
Other state	\$ —	\$ 379	\$ 379
Other local revenue	435,479	29,591	465,070
Total revenues	435,479	29,970	465,449
Expenditures:			
Principal	2,485,000	36,846	2,521,846
Interest	971,421	—	971,421
Total expenditures	3,456,421	36,846	3,493,267
Excess (deficiency) of revenues over (under) expenditures	(3,020,942)	(6,876)	(3,027,818)
Other financing sources (uses)			
Operating transfers in	3,146,765	—	3,146,765
Operating transfers out	—	—	—
Total other financing sources (uses)	3,146,765	—	3,146,765
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	125,823	(6,876)	118,947
Fund balances-beginning	782,313	42,134	824,447
Fund balances-ending	\$ 908,136	\$ 35,258	\$ 943,394

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

Organization June 30, 2006

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, 14 child development centers, 4 state preschools, and 17 combined child development centers and state preschools, and sponsored 26 charter schools.

Advisory Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Kerry Hamill	Director	January 2009
David Kakishiba	Director	January 2007
Gregory Hodge	Director	January 2009
Gary Yee	Director	January 2007
Noel Gallo	Director	January 2009
Dan Siegel	Director	January 2007
Alice Spearman	Director	January 2009

Administration

Dr. Randolph Ward
State Administrator
Appointed June 2, 2003

Javetta Robinson, CPA
Chief Financial Officer (CFO)
Hired January 10, 2005

Current Administration

Vincent C. Matthews
State Administrator

Leon Glaster
Interim Chief Financial Officer

Schedule of Average Daily Attendance Year Ended June 30, 2006

	Average Daily Attendance ¹	
	Second Period Report	Annual Report
Elementary:		
Kindergarten	3,441.05	3,431.76
Grades 1 through 3	9,670.89	9,610.83
Grades 4 through 6	9,035.37	8,972.49
Grades 7 - 8	5,415.64	5,382.74
Opportunity schools	8.63	9.16
Home and hospital	26.16	26.45
Special education	1,011.91	1,020.70
Community day school	10.15	12.27
Elementary totals	<u>28,619.80</u>	<u>28,466.40</u>
Secondary:		
Grades 9 through 12 (regular classes)	8,972.34	8,848.41
Continuation education	273.94	258.53
Opportunity schools	162.40	163.21
Home and hospital	22.52	22.49
Special education	592.13	582.35
Community day school	23.66	23.62
Secondary totals:	<u>10,046.99</u>	<u>9,898.61</u>
K - 12 totals	<u>38,666.79</u>	<u>38,365.01</u>
Regional occupation centers	<u>492.59</u>	<u>500.90</u>
Classes for adults:		
Concurrently enrolled	47.03	50.05
Not concurrently enrolled	4,817.01	4,978.57
Adult totals	<u>4,864.04</u>	<u>5,028.62</u>
ADA totals	<u><u>44,023.42</u></u>	<u><u>43,894.53</u></u>
	Summer School	Hours of Attendance
	Elementary	—
	High school	77,519.00
	Total	<u><u>77,519.00</u></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, 2006, and the Annual Report for the period ended June 30, 2006, as reported by the district. Refer to Findings 06-35, 06-36, 06-37, 06-40, 06-41, and 06-42.

Schedule of Instructional Time Year Ended June 30, 2006

Grade Level	1982-83 Actual Minutes Offered	1986-87 Minutes Requirement	2004-05 Actual Minutes Offered	Number of Days Traditional Calendar	Status ¹
Kindergarten	31,800	36,000	36,000	180	In compliance
Grades 1 through 3	40,610	50,400	50,400	180	In compliance
Grades 4 through 8	42,360	54,000	53,550	180	Not in compliance
Grades 9 through 12	42,000	64,800	64,800	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 06-43.

Schedule of Financial Trends and Analysis ¹

Year Ended June 30, 2006

General Fund	2007 (Budget)	For the Year Ended June 30,		
		2006	2005	2004
Revenues and other financing sources	\$ 410,031,064	\$ 403,476,442	\$ 412,850,622	\$ 403,150,954
Expenditures	408,857,635	396,107,981	397,434,827	403,402,676
Other uses and transfers out	3,144,329	4,648,585	4,830,834	6,617,122
Total outgo	412,001,964	400,756,566	402,265,661	410,019,798
Change in fund balance (deficit)	(1,970,900)	2,719,876	10,584,961	(6,868,844)
Prior period adjustments/restatements	—	2,314,733	(2,242,350)	(376,201)
Ending fund balance (see below)	<u>\$ 23,251,145</u>	<u>\$ 25,222,045</u>	<u>\$ 20,187,436</u>	<u>\$ 11,844,825</u>
Available reserves ² (see below)	<u>\$ —</u>	<u>\$ 1,422,816</u>	<u>\$ 630,984</u>	<u>\$ (4,320,293)</u>
Designated for economic uncertainties	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Undesignated fund balance	<u>\$ —</u>	<u>\$ 1,422,816</u>	<u>\$ 630,984</u>	<u>\$ (4,320,293)</u>
Available reserves as a percentage of total outgo	<u>—%</u>	<u>0.36%</u>	<u>0.16%</u>	<u>(1.05)%</u>
Total long-term debt	<u>\$ 577,620,235</u>	<u>\$ 587,232,375</u>	<u>\$ 448,821,463</u>	<u>\$ 447,171,089</u>
Average daily attendance (ADA) at P-2 ³	<u>—</u> ⁴	<u>38,667</u>	<u>42,319</u>	<u>44,549</u>

The general fund's fund balance has increased by \$13,377,220 over the past two years. The fiscal year ending June 30, 2007, budget is projecting a decrease of \$1,970,900 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 not met this requirement.

Total long-term debt has increased by \$140,061,286 over the past two years.

Average daily attendance has decreased by 5,882 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 (See Finding 06-01).

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.

⁴ The 2007 budgeted average daily attendance at P-2 was not provided by the district.

Schedule of Charter Schools ¹ Year Ended June 30, 2006

Name of Charter School	Included in District Financial Statements, or Separate Report
American Indian Public Charter	Separate Report
Bay Area Technology School	Separate Report
Berkley Maynard Academy	Separate Report
California College Preparatory Academy	Separate Report
Dolores Huerta Learning Academy	Separate Report
East Bay Conservation Corps Charter	Separate Report
East Oakland Leadership	Separate Report
Ernestine C. Reems Academy of Technology and Art	Separate Report
Education for Change at Cox Elementary	Separate Report
Education for Change at East Oakland Elementary	Separate Report
Growing Children	Separate Report
Lighthouse Community Charter High School	Separate Report
Lighthouse Community High School	Separate Report
Lionel Wilson College Preparatory Academy	Separate Report
Leadership Public Schools: Oakland	Separate Report
Millsmont Academy	Separate Report
Monarch Academy	Separate Report
North Oakland Community Charter	Separate Report
Oakland Alternative 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
University Preparatory Charter Academy	Separate Report
West Oakland Community School	Separate Report, Not Provided
Youth Employment Partnership	Separate Report

¹ Refer to Finding 06-53.

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

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	13797	\$ 23,381,922
Title I - (NCLB, Part A) Low Income and Neglected	84.010	14329	293,707
Title I -SAIT	84.010	14417	225,000
Title I -SAIT Corrective Action	84.010	14579	450,392
Title I - Comprehensive School Reform	84.010	14325	54,493
Title I - PID Intervention	84.010	14581	1,135,155
Title I - (NCLB, Part C) Migrant Education - State Grant Program	84.011	14326	159,086
Title I - Part D Neglected and Delinquent Children	84.013	14357	54,304
Special Ed - (IDEA, Part B) Local Assistance Entitlements	84.027	13379	8,493,851
Special Ed - (IDEA, Part B) Preschool Local Entitlement	84.027	13682	470,034
Special Ed - (IDEA, Part B) Infant Discretionary Funds	84.027	13612	3,897
Special Ed - (IDEA, Part B) Local Staff Development	84.027	13613	19,750
Special Ed - (IDEA, Part B) Licensed Children's Institutions	84.027	13143	—
Special Ed - (IDEA, Part B) Low Incidence Entitlements	84.027	13459	11,072
Special Ed - (IDEA, Part B) Workability I Program	84.027	13705	—
Title I - (Carl Perkins Act, Part C) Vocational and Tech. Education	84.048	13924	626,512
Indian Education - Formula Grant	84.060	10011	46,315
Dept of Rehabilitation - Workability II, Transitions Partnerships	84.158	10006	262,851
Special Ed - (IDEA, Part B) Federal Preschool Grant	84.173	13430	260,864
Special Ed - (IDEA, Part B) Pre-K Staff	84.173	13431	2,322
Special Ed - (IDEA, Part C) Early Intervention Funds	84.181	23761	205,411
Title IV - Safe & Drug Free Schools and Communities (National)	84.184	*	193,873
Title IV - Part A	84.186	14347	406,136
Bilingual Education Professional	84.195	*	—
Education for Homeless Children and Youth Program	84.196	13697	108,749
Improvement of Education - Teaching American History	84.215	*	361,109
Improvement of Education - FIE Earmark Grant	84.215	*	251,835
21st Century - Community Learning Centers	84.287	14349	5,364,511
Bilingual Education - Program Development and Implementation	84.288	*	—
Bilingual Education - Comprehensive School Grants	84.290	10008	179,353
Title V - (NCLB, Part A) Innovative Education Strategies	84.298	14354	174,823
Technology Challenge Grants	84.303	*	—
Title II - (NCLB, Part D) Enhancing Education Through Technology	84.318	14334	1,294,399
Transition to Teaching Program	85.105	*	6,424
Title I - (NCLB, Part B) Reading First	84.357	14328	4,113,931
School Leadership Program	84.363	*	435,105
Title III - (NCLB) English Language Acquisition	84.365	14346	84
Title III - (NCLB) English Language Acquisition	84.365	10084	1,497,585
Title II - Part A, (Improving Teacher Quality)	84.367	14341	3,091,288
Federal School Renovation Program	84.352 (a)	14313	1,159,400
Other Federal			1,507,404
Total U.S. Department of Education			<u>\$ 56,302,947</u>

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

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	\$ 14,281,170
Garden Enhanced Nutrition	00.000	24155	<u>—</u>
Total U.S. Department of Agriculture			<u>14,281,170</u>
National Science Foundation:			
Passed through CDE:			
National Science Foundation – Math and Science Grants	47.076	*	<u>128,231</u>
Total National Science Foundation			<u>128,231</u>
U.S. Department of Health and Human Services:			
Passed through CDE:			
Medical Assistance Program	93.778	10013	244,836
Alternative School Violence Prevention Project	93.243	*	52,413
Refugee Children Supplemental Assistance	93.243	*	32,421
CalServe - Learn & Serve America Service Grants	94.004	*	5,739
Child Development:			
Federal General Childcare	93.596	13609	8,208,033
Quality Improvement Activities	93.575	14130	63,496
School Age Childcare Resource Contracts	93.575	13979	<u>33,314</u>
Total U.S. Department of Health and Human Services			<u>8,640,252</u>
Total Expenditures of Federal Awards			<u>\$ 79,352,600</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, 2006

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, 2006

	General Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
June 30, 2006, Annual Financial and Budget					
Report fund balances	\$ 26,096,146	\$5,440,192	\$ 874,453	\$ 462,142	\$ 5,029,520
To write-off fiscal year 2003-04 and prior payables	147,502	225,514	173,655	208,105	(6,491)
To correct accounts payable	—	—	—	—	—
To correct Due To/Due From	(190,600)	—	—	—	—
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	(874,098)	225,514	173,655	208,105	(6,491)
June 30, 2006, audited financial statement fund balances/net assets	<u>\$ 25,222,048</u>	<u>\$5,665,706</u>	<u>\$1,048,108</u>	<u>\$ 670,247</u>	<u>\$ 5,023,029</u>
				State School Building Lease/Purchase Fund	Self-Insurance Fund
	Building Fund	Capital Facilities Fund			
June 30, 2006, Annual Financial and Budget					
Report fund balances	\$ 77,130,523	\$ 7,771,145	\$ 3,730,573	\$ 4,274,661	
To write-off fiscal year 2003-04 and prior payables	1,348,130	11,995	217,100	—	
To correct accounts receivables	—	—	—	290,845	
To correct accounts payable	—	—	—	(13,233)	
To correct Due To/Due From	—	—	—	190,600	
To correct deferred revenue	—	—	—	—	
To record loss reserve	—	—	—	750,000	
To correct abatement	145,000	—	—	(145,000)	
To correct self-insurance obligation	—	—	—	(39,854,807)	
To record prepared dental insurance expense in the proper period	—	—	—	(757,910)	
To record cash with fiscal agent	—	—	—	500,000	
Subtotal audit adjustments-statement of activities	—	—	—	—	
Net adjustments and reclassification	1,493,130	11,995	217,100	(39,039,505)	
June 30, 2006, audited financial statement fund balances/net assets	<u>\$ 78,623,653</u>	<u>\$ 7,783,140</u>	<u>\$ 3,947,673</u>	<u>\$(34,764,844)</u>	

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.

Morgan-Hart Class Size Reduction Grade 9 Schedule of Noncompliant Classes ¹

School	Subject	Sec/Course	J-9 MH-A		Audit		Total Over/ (Under)claimed
			Full-Year Equivalent Enrollment (FYEE)	Final Funding	Full-Year Equivalent Enrollment (FYEE)	Final Funding	
Bunche	English	613/Journalism	4.88	\$ 936.96	0	\$ 0.00	\$ 936.96
Oakland High	English	468 ENG. 3 SEC	19.95	3,830.40	0	0.00	3,830.40
Oakland High	Math	Algebra B SEC	5.84	1,121.28	0	0.00	1,121.28
Oakland High	Math	Algebra A SEC	7.99	1,534.08	0	0.00	1,534.08
Oakland Technical	English	ENG 1 SEC	5.30	1,017.60	0	0.00	1,017.60
Oakland Technical	English	ENG 2 SEC	5.39	1,034.88	0	0.00	1,034.88
Oakland Technical	English	ENG 1P	0.58	111.36	0	0.00	111.36
Oakland Technical	English	ENG 1P	15.99	3,070.08	13.40	2,572.80	497.28
Oakland Technical	English	ENG 1P	20.64	3,962.88	17.71	3,400.32	562.56
Oakland Technical	English	ELD/HB	10.26	1,969.92	8.89	1,706.88	263.04
Oakland Technical	Math	Algebra AP	6.79	1,303.68	5.42	1,040.64	263.04
Oakland Technical	Math	Algebra AP	9.73	1,868.16	9.32	1,789.44	78.72
Oakland Technical	Math	Algebra AP	20.22	3,882.24	16.28	3,125.76	756.48
Skyline	Math	Algebra A SEC	8.60	1,651.20	0	0.00	1,651.20
Architecture	English	ENG 4 SEC	13.00	2,496.00	0	0.00	2,496.00
Architecture	Math	Algebra B SEC	11.96	2,296.32	0	0.00	2,296.32
Architecture	Math	Algebra 1P	21.37	4,103.04	0	0.00	4,103.04
Architecture	English	English 1P	14.73	2,828.16	14.92	2,864.64	(36.48)
Architecture	Math	Algebra 1P	21.37	4,103.04	21.41	4,110.72	(7.68)
Robeson	Math	Algebra 1P	16.73	3,212.16	17.23	3,308.16	(96.00)
Robeson	Math	Algebra 1 SEI P	18.11	3,477.12	18.78	3,605.76	(128.64)
CBITS	English	English 1 SDC	7.88	1,512.96	0	0.00	1,512.96
CBITS	Math	Geometry SDC	8.36	1,605.12	0	0.00	1,605.12
EOCHS	English	Journalism, P	0.03	5.76	0	0.00	5.76
EOCHS	English	Journalism, P	8.17	1,568.64	0	0.00	1,568.64
BEST	English	ENG 1 SEC	4.89	938.88	0	0.00	938.88
BEST	English	ENG 1 SEC	4.89	938.88	0	0.00	938.88
			293.65		143.36		
Total funding overclaimed							\$ 28,855.68 ²

¹ See Finding 06-44.

² The total disallowance is the FYEE difference between the district's claimed amount of 293.65 and the audited amount of 143.36, or 150.29 (150.29 x \$192 = \$28,855.68).

**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 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, 2006, 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 internal service fund type of the district as of and for the year ended June 30, 2006, and has issued its report thereon dated July 23, 2008.

The district's accounting records were deficient, and certain records and supporting data were not available. Because of the deficiencies in the district's accounting records, the State Controller's Office was 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 \$172,968,310, \$38,905,601, \$679,251,179, \$178,695,608, \$39,827,758, \$12,805,357, \$587,232,375, \$539,797,621, \$551,160,910, \$325,642,121, \$12,722,744, and \$164,171,771, respectively, as of June 30, 2006.

Because of the significance of the matters discussed in the previous 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, 2006. 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 reserves were \$6,592,314 below the recommended level, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to this matter is also described. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Internal Control Over Financial Reporting

In planning and performing the audit, the State Controller's Office considered the district's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, the auditors noted certain matters involving the internal control over financial reporting and its operation that the State Controller's Office considers to be reportable conditions. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in the judgment of the State Controller's Office, could adversely affect Oakland Unified School District's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying findings and questioned costs, which includes the district's responses as Findings 06-02 through 06-24.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The State Controller's Office's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, the State Controller's Office considered Findings 06-02 through 06-24 as 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*, which are described in the accompanying findings and questioned costs which includes the district's responses as Findings 06-27 through 06-53.

This report is intended solely for the information and use of the district 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

July 23, 2008



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, 2006. 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 06-27 through 06-34 in the accompanying schedule of findings and questioned costs, Oakland Unified School District did not comply with 2 CFR 225 requirements applicable to its National School Lunch Program, Title I, and Special Education. 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, because of the effects of the noncompliance described in the preceding paragraph, the Oakland Unified School District did not comply in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of the State Controller's Office 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 as Findings 06-27 through 06-34.

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 the auditing procedures necessary for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

The State Controller's Office noted certain matters involving the internal control over compliance and its operation that are considered to be reportable conditions. Reportable conditions involve matters coming to the State Controller's Office's attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in the judgment of the State Controller's Office, could adversely affect Oakland Unified School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 06-27 through 06-34.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The State Controller's Office's consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, the State Controller's Office considers Findings 06-27 through 06-34 as material weaknesses.

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

July 23, 2008



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 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, 2006, 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, 2006, and has issued its report thereon dated July 23, 2008.

The district's accounting records were deficient, and certain records and supporting data were not available. Because of the deficiencies in the district's accounting records, the State Controller's Office was 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 \$172,968,310, \$38,905,601, \$679,251,179, \$178,695,608, \$39,827,758, \$12,805,357, \$587,232,375, \$539,797,621, \$551,160,910, \$325,642,121, \$12,722,744, and \$164,171,771, respectively, as of June 30, 2006.

Because of the significance of the matters discussed in the previous 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, 2006. 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 reserves were \$6,592,314 below the recommended level, and the 2006-07 budget indicated deficit spending in the next fiscal year which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to this matter is also described. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The district's management is responsible for the district's compliance with laws and regulations. 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	Yes
Kindergarten continuance	3	Yes
Independent study	22	Yes
Continuation education	10	No*
Adult education	9	Yes
Regional occupational center/programs	6	Not applicable
Instructional time:		
School districts	4	Yes
County offices of education	3	Not applicable
Community day schools	9	Not applicable
Morgan-Hart class size reduction program	7	Yes
Instructional materials:		
General requirements	12	No*
K-8 only	1	No*
Grades 9-12 only	1	No*
Ratios of administrative employees to teachers	1	Yes
Early retirement incentive program	4	Not applicable
Gann limit calculation	1	Yes
School construction funds:		
School district bonds	3	No*
State school facilities	1	Yes
Alternative pension plans	2	Not applicable
Proposition 20 lottery funds	2	Yes
State lottery funds	2	Yes
California school age families education program	3	Not applicable
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

* As discussed in Findings 06-41, 06-46, and 06-49, 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 Continuation Education, Instructional Materials, and School Construction because the District did not provide documentation or provided inadequate documentation to support its compliance with state laws and regulations.

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 the auditors' attention to indicate that the Oakland Unified School District had not complied with the state laws and regulations, except as described in Findings 06-35 through 06-53.

This report is intended solely for the information and use of district management, federal awarding agencies, 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

July 23, 2008

FINDINGS AND RECOMMENDATIONS SECTION

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

SECTION I—SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued:	Disclaimer
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Reportable condition(s) 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
Reportable condition(s) 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
84.027	Special Education
84.367	Improving Teacher Quality
84.357	Reading First State Grants
84.287	Twenty-First Century Community Learning Centers
93.596	Child Care and Development Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,380,578
Auditee qualified as low-risk auditee?	No

State Awards

Internal control over state programs:	
Material weakness(es) identified?	Yes
Reportable condition(s) 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, 2006

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
50000	Federal compliance
60000	Miscellaneous
70000	Instructional materials
71000	Teacher misassignments
72000	School accountability report card

SECTION II—FINANCIAL STATEMENT FINDINGS

**FINDING 06-01—
Minimum reserves
not met
(30000) (60000)**

As of June 30, 2006, the district had a total general fund balance of \$25,222,048. Of this amount, the district had \$18,736,383 reserved, leaving the available unrestricted reserve of \$6,485,665. Of the unrestricted fund balance, \$150,000 was reserved for the revolving cash fund and \$4,912,848 was reserved for other purposes, leaving \$1,422,817 designated for economic uncertainties. Available reserves for a district of this size cannot be less than 2% of the total outgo of the general fund; this equates to \$8,015,131. As of June 30, 2006, the district's reserves were \$6,592,314 below the required level of the amount reserved for economic uncertainties.

In addition, as a result of state compliance findings over the past four years, the district may be required to repay a material amount of questioned costs, further decreasing the available reserves. Continuing to operate with insufficient available reserves could lead to further financial difficulties for the district.

We also noted that the district's Self-Insurance Fund had a negative fund balance of \$(34,764,844) as of June 30, 2006, and the district's Statement of Net Assets, which includes Capital Assets and long-term debt, had a negative unrestricted fund balance of \$(87,672,451). The deficit fund balance and negative unrestricted fund balance indicate that the district does not have sufficient resources to meet future 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 restored 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 three prior years' audits. This is a repeat of Findings 03-01, 04-01, and 05-01.

Recommendation

The district should ensure that it maintains the required available reserves. The district should monitor its available reserves, and, if necessary, reduce expenditures to comply with the requirements. In addition, the district should implement the recommendations pertaining to the state and federal compliance findings to ensure that costs are not disallowed in the future.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-02—
Documentation delay
and inaccuracies
(30000) (60000)**

The completion of our FY 2005-06 audit of the Oakland Unified School District has been delayed because of difficulties encountered in performing the audit, and delays by the district in providing requested schedules or information.

At the start of the audit, we provided the district with a documentation request. Although the district provided most of the documentation in a timely manner, during our review of the documentation, we noted that most of the documents provided were incomplete or inaccurate. As a result, we were required to spend additional audit time identifying the missing or inaccurate information, advising district staff of the discrepancies, and waiting for revised documents. Once the district provided the revised documents, we needed additional time to verify that the information was accurate and complete.

The following is a listing of some of the documents that were incomplete or inaccurate:

FINANCIAL TESTING

Cash (Finding 06-05)

On March 8, 2007, we requested a complete listing of the district's savings and checking accounts. Account confirmations disclosed that an account was closed that was shown as open in the unaudited actuals. In addition, an open adult education cash in bank account was discovered through testing of checks received. We also discovered another open checking account by reviewing replenishment of the revolving cash account.

On March 8, 2007, we also requested a reconciliation of all district savings and checking accounts. When cash testing began, after completion of state compliance testing, we noted that the reconciliations provided by the district did not agree to the amounts reported in the unaudited actuals and contained items labeled as "unreconcilable difference." We also were not provided with a reconciliation of Cash with Fiscal Agent. At status update meetings on August 16, 2007, and October 18, 2007, we discussed cash deficiencies with the district. On November 8, 2007, the district provided another set of reconciliations. However, these reconciliations still did not agree to the unaudited actuals and also contained items labeled "unreconcilable difference."

The deficiencies resulted in a disclaimer of opinion for cash. The audit of cash will be more time efficient and effective when the district is able to provide a complete and accurate listing of its cash accounts and is able to properly reconcile its accounts and provide supporting documentation.

Payroll (Finding 06-04)

The district does not reconcile its payroll registers to the expenditures listed in its unaudited actuals. We requested a reconciliation of the payroll expense in order to establish a population for payroll testing,

however, the district could not provide a summary of payroll registers to support payroll expenditures or identify and resolve the variance either. In addition, the district does not reconcile its Cash in County Treasury in the Warrant Pass-Through Fund or bank accounts used to process the payroll checks and automatic deposits. This resulted in the disclaimer for payroll expenditures.

If the district had prepared periodic reconciliations as required by good internal controls, the variance may have been identified and resolved by district personnel in a timely manner prior to year-end closing.

Accounts Payable (Finding 06-11)

On March 8, 2007, we requested a detailed listing of accounts payable items as of June 30, 2006, for all funds. The district provided an accounts payable list in March 2007 that did not contain journal entries and other types of transactions and did not agree to the outstanding balance of accounts payable as of June 30, 2006. The district provided electronic data to us numerous times—August 27, 2007, November 21, 2007, February 1, 2008, and February 26, 2008—however, none of the data provided agreed to the amount of account payable items reported in the district's June 30, 2006 unaudited actuals.

Because the district was unable to provide a detail listing of accounts payable items, we were not able to establish a complete population of account payable items and could not perform required audit procedures. This resulted in a disclaimer of opinion on accounts payable.

Capital Assets (Finding 06-03)

In February 2007, we requested a complete list of capital assets. In July 2007, the district provided the list. In October 2007, we informed the district that the listing provided was incomplete and inaccurate. We provided the district with a draft audit finding for capital assets on January 28, 2008. At that time, the district stated that it would attempt to provide a complete and accurate report, however, the district has not provided the report. As a result, we cannot audit capital assets and therefore, will disclaim an opinion on capital assets.

The district has not been able to provide a list of capital assets in each of the three prior years' audits. Until all capital assets are identified, management is not able to account for and control all capital assets under their care.

Deferred Revenue (Finding 06-09)

We informed the district on January 10, 2008, that we were unable to verify that the amount of deferred revenue at prior year-end was accurately carried forward to the current year because the district did not establish the liability for deferred revenue by resource code. The district stated it would provide a list of the prior year carryover of deferred revenue by resource code. On January 28, 2008, we requested the

information again and were told again it would be provided. This information was not provided by the district. This resulted in a disclaimer of opinion on deferred revenue.

Emergency Apportionment Loan Refinancing (Finding 06-18)

On December 1, 2005, the district refinanced its \$56,648,758 emergency apportionment loan with I-Bank; however, the district (and I-Bank) was not able to provide a complete debt schedule for the refinanced loan. The district did not provide information regarding the refinancing of its debt but I-Bank was able to provide a schedule of principal payments only. We compiled the schedule of principal and interest payments based upon the principal payment schedule provided and the maximum interest rate possible per the rate provision in the refinance agreement. In addition, we had to calculate the capitalized interest expense because the district did not provide the information.

Self-Insurance (Finding 06-12)

An actuarial review was not provided for dental insurance coverage. We requested an explanation on August 9, 2007, as to the reason for the lack of an actuarial review and requested again on subsequent dates in August, September, and October. The district has not provided an explanation for the lack of a dental insurance coverage actuarial estimate.

FEDERAL TESTING

Time Certifications (all federal programs) (Finding 06-28)

The district was informed in September 2007, that time certification forms were not maintained for fiscal year 2005-06. Three months later in December 2007, the district provided employee time certifications titled "2005-2006 Time Accounting for Federally Funded Personnel - Employees Funded 100% From Federal." However, the documentation that was provided was not sufficient to demonstrate compliance with Title 2, CFR 225. Almost all of these documents were signed in November 2007 and the section A portion of the form indicating fiscal year was not completed. These time certification forms were signed 17 months after fiscal year 2005-06 completion and after we requested the documentation. The forms covered a 12-month period rather than a semi-annual reporting period required by Title 2, CFR 225.

National School Lunch (Finding 06-29)

- We requested supporting documentation for meals claimed for all 12 months. In May 2007, the district provided 8 of 12 "Edit Check" reports and 6 of 12 "Afterschool Snack" summaries. After numerous document requests to the food services department, we notified district management on August 16, 2007, that requested supporting documentation had not been received. Management was also informed at monthly update meetings that the requested documentation was still outstanding. The auditor concluded this section of the audit. Then in December 2007, the district provided the

remaining outstanding documents, requiring the auditor to revise much of the work already performed. The documentation received still did not support meals claimed for 8 out of 12 months.

- The district was advised at the monthly update meeting in September 2007 of the income eligibility application and expenditure deficiencies. Management was informed at monthly update meetings that the requested documentation was still outstanding. The district did not respond to the deficiencies until December 2007, at which time additional documentation had to be requested to complete audit testing. The additional documentation received had to be reviewed and still did not support the district's compliance with NSLP requirements.

Prudent business practices require that management review internal documentation to ensure data is accurate and complete and internal controls are functioning as intended. Also, management should be able to account for all assets under its care.

Good internal controls also require that the unaudited actuals be reconciled to supporting data prior to year-end closing.

Recommendation

The district should ensure that all documentation is maintained in such a manner that accurate and complete information can be provided to the auditors in a timely manner.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-03—
Capital asset records
incomplete and inaccurate
(20000) (30000) (50000)**

The district obtained a valuation of its capital assets as of June 30, 2006, showing that \$12,357,516 in capital assets were purchased and capitalized during the period July 1, 2005, through June 30, 2006. However, the district's unaudited actuals showed \$90,531,364 of capitalized expenditures for the fiscal year. The district was unable to provide an explanation regarding the \$78,173,848 variance.

We reviewed 40 capital expenditures and found that nine items purchased and capitalized were not included in the capital assets valuation report even though they exceeded \$5,000. In addition, the district purchased two vehicles during the 2005-06 fiscal year that were not included in its valuation report.

We also noted the following deficiencies with the capital asset valuation report.

- Equipment, including additions to equipment, did not include the presentation of the information required by the Office of Management and Budget (OMB) Title 2, Code of Federal Regulations (CFR), Part 215, Subpart C, 215.34 Equipment.
- The adjusted beginning balance amounts reported as of July 1, 2005, in the district's Form ASSET did not reconcile with the balances as reported in the prior year's financial statement. The district was unable to provide an explanation for the variances.

Account	Balance Per Audit Report June 30, 2005	Balance Per Form ASSET July 1, 2005	Variance
Work in process	\$ 100,905,463	\$ 101,050,464	\$ (145,001)
Buildings	425,393,202	528,741,336	(103,348,134)
Equipment	15,116,259	10,648,540	4,467,719
Accumulated depreciation for:			
Buildings	(161,337,511)	(122,865,089)	(38,472,422)
Improvements	(17,188,162)	(3,857,546)	(13,330,616)
Equipment	(11,330,101)	(8,015,179)	(3,314,922)

- Our review of the state administrator and/or advisory board minutes disclosed that although the state administrator/board properly authorized the disposal of certain assets, the district did not account for the disposed assets in its valuation report.

<u>Minutes</u>	<u>Items Approved for Disposal</u>
September 28, 2005	62 musical instruments
December 14, 2005	121 district property items, including cafeteria equipment, copiers, and woodshop equipment
March 8, 2006	5 motor vehicles and 8 photo I.D. camera/printing units

In addition, the district's Form ASSET does not reflect any recorded decrease in equipment during FY 2005-06.

GASB Statement No. 34, Paragraphs 18, 19, and 20 state:

Capital assets should be reported as historical cost. The cost of a capital asset 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. . . .

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

Capital assets that are being depreciated or have been depreciated should be reported net of accumulated depreciation...

GASB Statement No. 34, Paragraph 117 states, in part:

Information presented about major classes of capital assets should include. . . . Sales or other dispositions. . . .

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

When items are disposed of in any manner, their cost is removed from the capital asset account. Any accumulated depreciation is also removed from the depreciation allowance account.

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 the 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 electric staplers, to Object 4300, Materials and Supplies. These items would be neither capitalized nor inventoried.

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 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.

EDGAR, Part 80, Subpart C, Section 80.32(d), states:

Equipment: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use, and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

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

As the district's fiscal year 2005-06 capital asset valuation report did not support the capital assets balance in its unaudited actuals and the district was unable to explain the \$78.17 million variance, we were unable to audit capital assets. Therefore, we will disclaim our opinion on capital assets for fiscal year 2005-06.

This condition has continued in each of the three prior years' audits. This is a repeat of Findings 03-24 to 03-29, 04-09, and 05-02.

Recommendation:

The district should obtain a *complete* capital asset valuation that includes all land, buildings, vehicles, and equipment. The district should confirm that the valuation is complete, accurate, and approved by the State Administrator. Until the district provides an updated valuation of its capital assets and confirms that the valuation is complete and accurate, we cannot audit capital assets.

In addition, the district should ensure that:

- A complete and accurate record of its capital assets is maintained with information that identifies asset number, asset description, acquisition date, original cost, funding source, location, serial number, time and mode of disposal, and, if applicable, sale proceeds;
- Depreciation expense is calculated and reported in accordance with governmental accounting standards.

- All capital assets are identified as property of the district and tracked using tag identification numbers;
- Capital assets purchased with federal funds are maintained in accordance with federal requirements;
- A physical inventory of capital assets be performed at least annually and reconciled to the general ledger;
- Any property that has been authorized for disposal should be disposed of in accordance with the state administrator's or board's instructions; and
- Any property that has been disposed should be removed from the accounting records, any proceeds should be appropriately accounted for, and any sales proceeds due to a grantor agency should be returned to the grantor agency.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-04—
Payroll deficiencies
(30000) (60000)**

Our review of the district's payroll disclosed that the salary and benefit expenses reported on the monthly and supplemental payroll reports do not support the amount of salary expense reported in the unaudited actuals. We summarized the monthly payroll reports, by fund, and compared the summary to the salary and benefit expenses reported in the unaudited actuals. We noted that the total expense reported on the payroll reports exceeded the total expense reported in the unaudited actuals by \$3,447,965. The district was unable to provide an explanation for the \$3.4 million variance.

In addition, we noted that the following three payroll clearing accounts, totaling \$17,682,857, were not properly reconciled:

- Cash in County Treasury in the Warrant Pass Through Fund—\$16,408,251
- Public fund interest checking at California Bank and Trust—\$1,137,407
- Payroll direct deposit account at Union Bank of California—\$137,199

We also noted that the accounts at California Bank and Trust and Union Bank of California were not reported in the district's unaudited actuals.

The payroll clearing accounts are used for payment of salaries, taxes, and benefits. The accounts should have a zero balance when all checks have cleared. However, not all checks clear and the district does not reconcile the accounts; instead it transfers (sweeps) the remaining balances to the General Fund. The district moved, via journal entries and check deposits, approximately \$1,139,000 from the three payroll clearing accounts and deposited the funds as local revenue in the General Fund. As a result, the district's payroll expense and local revenue were overstated. The district did not reconcile the accounts; therefore, we cannot determine the effect on revenue and payables (payroll liability) or propose an adjusting journal entry. In addition, we are unable to determine that liabilities, such as federal and state taxes, are paid in a timely manner. (See Finding 06-05)

Although *California School Accounting Manual (CSAM)*, Procedure 560, instructs LEAs to deposit stale-dated warrants as local revenue rather than as an abatement to expenditure accounts, doing so is not consistent with generally accepted accounting principles. The CDE's explanation of the principle underlying the CSAM procedure is that an LEA should abate an expenditure account for a receipt, *only* if the receipt cancels all or part of an identifiable item of expenditure *in the current year* and only if not abating the expenditure account will result in a current-year expenditure being overstated. The district performs sweeps monthly, so the district is moving current-year payroll expenses but is not abating the payroll expenditures. The district reports the funds as local revenue rather than as an abatement to the expenditure.

Good business practices require that:

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

Furthermore, CSAM Procedure 560 states that:

Receipts that represent cancellation of expenditures are accounted for as abatements by crediting the original expenditure accounts for the fiscal year in which the expenditures and receipts occur. Receipts canceling expenditures from a prior year that were not accrued in the prior year must be accounted for as revenue in the current year.

We noted similar exceptions in the last three years' audits. This is a partial repeat of Findings 03-42, 03-43, 04-20, and 05-10.

The district's inability to reconcile general ledger accounts and bank accounts prevents us from determining whether payroll expenditures and the associated employee benefits are fairly stated. Therefore, we must disclaim on payroll expenditures and associated employee benefits. In addition, because we could not establish the total population of paid employees by reconciling the payroll registers to the payroll expense, we could not select a representative sample of paid employees to test. Also, we could not determine that liabilities were paid in a timely manner. This also constitutes a scope limitation, as we could not complete the payroll testing procedures.

In addition, the vacation liability amounts to \$3.5 million. Although most union agreements and district bulletins discourage the accumulation of leave balances, which are generally capped at 240 hours, there were 178 employees who equaled or exceeded that limit. The district has reduced to 37, the number of employees that had negative leave balances (time owed to the district), with a total value in excess of \$20,000.

Recommendation

The district should implement policies and procedures to ensure that:

- Payroll clearing accounts are reconciled to cash in bank and cash in county treasury;
- Payroll registers are reconciled to payroll expenditures and associated employee benefits;

- All accounts used to account for assets held in a trustee or agent capacity for others, such as the California Bank and Trust and Union Bank of California accounts, are reported as fiduciary funds in the district's general ledger;
- Receipts that represent cancellations of current year expenditures are accounted for as abatements rather than as income; and
- Vacation leave balances are monitored to ensure compliance with bargaining contracts and to mitigate the possible excessive vacation liability and/or collection of salary due the district from employees with negative leave balances.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-05—
Cash account
deficiencies
(30000) (60000)**

Our review of the district's cash accounts disclosed material variances, lack of account reconciliations, and an incomplete list of district bank accounts.

Cash in County Treasury

The district's reconciliations of Cash in County Treasury do not agree to the amount of Cash in County Treasury reported in the unaudited actuals. The amount of Cash in County Treasury reported in the unaudited actuals for all funds except Fund 51 and Fund 76, amounting to \$141,781,608, exceeded the amount of Cash in County Treasury reported on the district's reconciliations, \$141,101,163, by a net amount \$680,445. For six funds—General Fund, Adult Education Fund, Cafeteria Fund, Special Revenue Fund for Other Than Capital Projects, Building Fund, and Debt Service Fund—the unaudited actuals amount exceeded the reconciled balance by \$877,842.

For two funds—the Child Development Fund and the Self Insurance Fund—the reconciled balance amount exceeded the unaudited actuals by \$197,364.

Also, the district did not reconcile the Bond Interest and Redemption Fund and Warrant Pass-Through Fund. The unaudited actuals reported \$27,256,371 and \$16,408,251, respectively, for these funds.

The amount of Cash in County Treasury confirmed by the county treasurer exceeded the amount of cash reported in the unaudited actuals because the county treasurer posted activity that occurred after June 30, 2006, as of June 30, 2006. For example, the county treasurer deposited fourth quarter interest revenue earned, amounting to \$2,320,730, into Cash With County Treasury as of June 30, 2006. The county treasurer posted taxes, amounting to \$1,145,767, at fiscal year-end to three funds: the General Fund (\$597,439), the Bond Interest and Redemption Fund, (\$547,607) and the Tax Override Fund (\$721). The district did not report this activity until fiscal year 2006-07.

The district does not properly reconcile the general ledger to the amount of cash reported by the county treasurer because it does not research variances. When the district cannot balance to the amount of Cash in the County Treasury, the district reports the amount as “unreconciled variances.” Our review of the district's cash reconciliations for Cash in County Treasury for all funds disclosed net “unreconciled variances” of \$443,268. The Alameda County Office of Education (ACOE) reconciliation of the district's cash disclosed net “unreconciled variances” of \$232,770.

We noted that the district made an adjustment to cash and that the General Fund balance was restated for \$1,636,068. The district did not provide any documentation to support this adjustment.

The district posted to the Debt Service Fund interest revenue amounting to \$474,365 earned by the Bond Interest and Redemption Fund for the

four quarters of fiscal year 2004-05, and the second and third quarters of fiscal year 2005-06. As a result, the general ledger ending balance and unaudited actual amounts were misstated for Cash in County Treasury.

The district doubled-booked \$5,562,497 of fiscal year 2005-06 bond sale proceeds. The reconciling entry in the amount of \$5,562,497 was booked as a Due To/Due From on August 23, 2006, as a fiscal year 2006-07 transaction. The Alameda County Office of Education Unaudited Actual Review indicates that the \$5.5 million was posted as an account payable in the Bond Interest and Redemption Fund; however, the unaudited actuals do not reflect an accounts payable for this fund. The district provided a journal entry for the 2005-06 fiscal year that showed that a Due To/Due From was established between the Bond Interest Redemption Fund and Building Fund. However, the unaudited actuals do not show that a Due To/Due From was ever established.

Cash in County Treasury for the Warrant Pass-Through Fund is overstated by \$7,355,601. The Warrant Pass-Through Fund reports Cash in County Treasury of \$16,408,251; however, the county treasurer confirmed cash of \$9,052,650. The district-provided documentation to support the variance shows a debit to accounts payable, object code 9531, for \$2.778 million, posted on July 13, 2007, for fiscal year 2006-07. However, the district provided no explanation as to how the payment of the \$2.778 million liability in fiscal year 2006-07 affected the cash at year-end. The remaining difference of \$4.86 million has been on the books for an unknown amount of time and the district is not able to identify the \$4.86 million. Monthly sweeps for this account have been deposited as local revenue to the General Fund. District management acknowledged that sweeps were deposited to the General Fund in error and should have been deposited to Fund 76. The district has not yet been able to show if the unpaid payroll has been reported as a liability.

Cash in Bank

We observed that the district does not maintain a complete and accurate listing of its checking accounts. The district maintains some checking accounts that are not reported in the district's general ledger, and the district's general ledger shows balances in some accounts that were confirmed by various financial institutions as closed.

During a review of checks received, we noted that the district's adult education program maintained multiple bank accounts that were not listed on the unaudited actuals.

We noted that some accounts were not reconciled and/or reported in the district's general ledger. The revolving fund account at Union Bank of California (a/c # 7020024466) was replenished with a check from the Accounts Payable/Revolving Acct. (a/c # 7020010317). However, the Accounts Payable/Revolving Acct. was not included on the district's list of bank accounts for FY 2005-06 or in prior years. The district did not provide a reconciliation of the account for the FY 2005-06, or in prior years.

We confirmed cash with California Bank and Trust (a/c #07-137299-70) in the amount of \$1,137,407 at June 30, 2006, but the account does not appear to be included on the district's books. The account is used to pay payroll taxes.

We also confirmed cash with Union Bank of California (a/c #7020013898) in the amount of \$137,199 at June 30, 2006, but the account does not appear to be included on the district's books. This account is a payroll clearing account that management states should have a zero balance. Checks, representing monthly sweeps for this account, have been deposited as local revenue to the General Fund. Management acknowledges that sweeps were deposited to the General Fund in error and should have been deposited to Fund 76. The district has not reconciled the account and the unpaid payroll has not been reported as a liability.

Although CSAM Procedure 560 instructs LEAs to deposit stale-dated warrants as local revenue rather than abatement to expenditure accounts, this is not consistent with generally accepted accounting principles. The CDE explained the principle underlying the CSAM procedure thusly: an LEA should abate an expenditure account for a receipt only if the receipt cancels all or part of an identifiable item of expenditure in the current year (emphasis added) and only if not abating the expenditure account will result in a current year expenditure being overstated. The district's sweeps are performed monthly, so they are moving current-year payroll expenses. However, we cannot determine whether the failure to abate the expenditure account will result in payroll expense being overstated because the district does not reconcile the bank account or payroll expenditures.

District management states that these are the district's payroll accounts and the balances would be reported via the payroll accounts. However, the district's unaudited actuals for the Warrant Pass-Through Fund do not show any Cash in Bank. We have not received a reconciliation for the Payroll Direct Deposit account at Union Bank of California or for the Union Bank Account. The reconciliation of Cash with County Treasury for the Warrant Pass-Through Fund does not include the bank accounts, so we cannot determine if the bank accounts are reported as Cash in County Treasury. (See Finding 06-04 , Payroll Deficiencies)

We are unable to propose any adjusting entries related to this account until the district provides the support for all the sweep transactions and the effect on the payroll liability.

The General Fund reports Cash with Fiscal Agent of \$802,544, while our cash confirmation (a/c # 129268-025) reports the balance to be zero. Two checks dated June 30, 2006, were written to close the account. The district provided documentation showing that two checks, amounting to the balance of the account, were deposited into Fund 01-General Fund, Object 9135, Cash with Fiscal Agent. However, the district has not provided us with a reconciliation of the Cash with Fiscal Agent account.

We will issue a disclaimer of opinion because we cannot determine whether cash is fairly stated.

We noted similar exceptions in the last three years' audits. This is a partial repeat of Findings 03-12 to 03-14, 04-03, 04-04, and 05-03.

Procedural guidance based on basic accounting fundamental requires "closing the books," an accounting process whereby the accounts are adjusted to reflect the most current balances. A reconciliation of cash accounts is an essential part of that procedure. Adequate internal controls and prudent accounting practices require that the district promptly reconcile cash, investigate/document any variances, and make appropriate adjustments to the accounts when necessary.

Recommendation

The district should:

- Compile and maintain a complete and accurate list of all bank accounts;
- Review its reconciliation process to determine how to make the process effective;
- Routinely reconcile all of its cash accounts. District financial management should review the reconciliations to ensure that they are accurate and complete;
- Analyze the cash accounts to determine the cause for the variances;
- Analyze its payroll clearing account to determine the correct balance; and
- Contact the Alameda County Office of Education prior to closing its books to determine the correct amount of fourth quarter interest revenue.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-06—
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 fiscal year 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 fiscal year 2005-06. Consequently, we did not audit ASB and subsidiary funds for the fiscal year ended June 30, 2006.

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 Finding 05-12.

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 chose to not provide a response to this finding.

**FINDING 06-07—
Revenue unauditible
(30000)**

Our review of cash accounts revealed that local revenue reported in the district's general fund was overstated because the district:

- Transferred approximately \$1,139,000 from the payroll clearing account at Union Bank (which is not listed on the district's books) to the General Fund and reported the money as local revenue. The funds were for unpaid salary, for the current year, not revenue.
- Cleared money out of the Warrant Pass-Through Fund by monthly sweeps, checks deposited as local revenue to the general fund. District management acknowledges that sweeps were deposited to the general fund in error and should have been deposited to Fund 76. The district has not yet been able to show if the unpaid payroll has been reported as a liability.

Our review of 34 resource codes in the General Fund disclosed that the revenue reported by the district in five resource codes was not supported by documentation such as grant/award letters or proofs of deposit. We noted that total revenue was misstated in five resource codes, as follows:

- Other State Apportionments—Current Year—Resource 7240, Object code 8311, was understated by \$252,007 because the funds were posted to Transportation—Home to School, resource code 7230, in error. Funds received for the Transportation—Special Education (Severely Disabled/Orthopedically Impaired), resource code 7240, are restricted for students who have transportation included in their Individual Education Plan (IEP). The funds were deposited into the Transportation—Home to School, resource 7230, have no such restriction. Therefore, the funds can be used for students other than the severely disabled/orthopedically impaired students whose IEP's include transportation. In addition, resource 7230, Object code 8311—Other State apportionments—Current Year, was overstated.
- State Lottery—Revenue—Resource 1100, Object code 8560, was understated by \$972,408 because the district did not properly accrue for the fourth quarter payment. The district established a receivable for \$7,135, however, the district received \$979,543. In addition, the district had reported 2004-05 revenue as revenue in 2005-06, consequently, the net understatement was \$599,338. See Accounts Receivable Finding 06-08.
- Lottery—Instructional Materials—Resource 6300, Object code 8560, was understated by \$54,190 because the district established a receivable of \$896,392 and received \$950,583. In addition, the district had reported 2004-05 revenue as revenue in 2005-06, the net understatement was \$21,866.
- All Other State Revenue—Pupil Retention Block Grant—Resource 7390, Object code 8590, was understated by \$238,098 because the district did not properly accrue for the second apportionment. The district received a revised estimated entitlement from the California Department of Education, in August 2006, before closing the books

and after fiscal year-end. However, the district did not accrue the receivable because the entitlement was an estimate. The district should use the best estimate available and accrue a receivable to ensure that revenue is recorded in the correct year.

Part of our revenue testing also requires us to verify that revenue received by check is deposited into the Cash in County Treasury in an accurate and timely manner. During our review of 15 checks received, we noted the following reporting deficiencies for four checks:

- A check for \$298,274 was received for support of the 2004-2005 Academy Internship program; however, a receivable was not accrued and the funds were reported as 2005-2006 revenue. Thus, current year revenue was overstated by \$298,274.
- A refund check for \$166,299 was received as a rebate of a prior year expense and should have been posted as revenue; however, the check was posted as a decrease to the current year expense. Thus, current year expenses were understated by \$166,299.
- A check for \$1,136,781 was received from the City of Oakland for developer fees. We requested evidence that the district verified that the correct amount in fees was received; however, the district did not provide any documentation. Therefore, we cannot determine that the correct amount of developer fees was received and reported in the financial statements.
- A check for \$80,000 was received for the sale of surplus equipment and the funds were deposited into the General Fund (Fund 01), when the equipment was purchased with funds from the Building Fund (Fund 21). In addition, the funds were not reported as revenue. Instead, the funds were reported as a reduction in current year expenditures. Thus, current year expenses are understated by \$80,000.

We reviewed the revenue reported in the Child Development Fund for one contract, (contract number CCTR-5013) and determined that federal and state revenue were not accurately stated. The district explained that prior year state revenue (resource code 6060, object code 8530) and federal revenues (resource code 5025, object code 8290) was reported as current year revenue, thus current year revenues was overstated. To correct revenue, the district posted debits to contributions (resource codes 5025 and 6060, object code 8980). As a result:

- Federal revenue was overstated by \$428,463.
- State revenue was understated by \$589,539.
- Contributions were also misstated.

Generally accepted accounting practices require revenue to be accurately stated.

CSAM Procedure 505 states:

For revenue to be recorded in the appropriate fund and revenue object classification, sufficient source documentation is required. Source documents for posting revenues are primarily apportionment notices from the county superintendent of schools for deposits made directly to the county treasury or copies of receipts for moneys received directly by the LEA.

We will disclaim on revenue because of the issues noted in this finding.

This condition has remained constant in each of the three prior years' audits. This is a repeat of Findings 03-17, 04-05, and 05-07.

Recommendation

The district management should:

- Use estimates provided by California Department of Education and other funding sources to accrue for revenue earned but not received at year-end.
- Review revenue to ensure that it is accurately posted;
- Maintain a log of checks received and reconcile it to checks deposited in the Cash in County Treasury; and
- Provide to the auditors, upon request, documentation/explanations regarding variances.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-08—
Accounts receivable
unauditable
(30000)**

Our review of accounts receivable disclosed that the district did not accurately accrue amounts for accounts receivable and revenue, monitor receivables, or obtain the proper approvals for writing off receivables.

We verified interest receivable and accounts receivable amounts accrued in 15 resource codes through subsequent receipt documentation and observed material variances in interest receivable (resource code 0000) and four resource codes.

- Resource code 0000—The Alameda County Office of Education instructed the district to accrue \$1,537,800 for fourth quarter interest to be received from the county treasurer. However, as of June 30, 2006, the Alameda County Treasurer deposited \$2,338,148 into the district's Cash With County Treasury account for the fourth quarter interest revenue earned. Therefore, accounts receivable and fiscal year 2005-06 revenue were understated by over \$800,000. Interest revenue for FY 2006-07 will be overstated.
- Resource code 0000—AJE #7665 for \$217,580 was posted on June 30, 2006, to "reverse apportionment." Then, JE #8347 was posted on January 17, 2007, to reverse the entry "to correct revenue FY04-05." Therefore, accounts receivable and revenue were overstated by \$217,580.
- Resource code 0000—The district posted JE #7815 to accrue for reimbursement of MAA (medical administration act) claims. However, supporting documentation indicates that only \$560,697 was received. Therefore, accounts receivable and revenue were overstated by \$75,485.
- Resource code 1100—The revenue received of \$950,583 for State Lottery (resource code 1100) exceeded the receivable amount accrued of \$7,135 by \$943,447.
- Immaterial variances totaling \$103,307 in six other resource codes.

For the 15 resource codes tested, accounts receivable and revenue for fiscal year 2005-06 was understated, in total, by \$2,457,395, and was improperly reported as current revenue in fiscal year 2006-07. Consequently, revenue for both years is materially misstated.

In addition, our review disclosed that the district is not properly monitoring and writing off its receivable balances that have remained on its books for more than one year.

For example, resource code 9010, Other Local Restricted, had an outstanding balance of \$874,530 prior to June 30, 2006. The district provided copies of journal entries as supporting documentation. However, the journal entries had no supporting documentation and the descriptions on the journal entries were not sufficient to allow us to determine the content and age of these receivables.

Our review of resource code 6010, After School Education and Safety, disclosed that the district accrued a receivable of \$64,633 for fiscal year 2004-05; however, the district did not provide any evidence that the fiscal year 2004-05 receivable was received as of June 30, 2006.

During our review of accounts receivable, we noted that journal entries to write off \$905,794 in receivables were posted to resource code 9070, object code 9205, to reconcile fiscal year 2004-05 account receivable. However, the district did not provide evidence that these write-offs were approved by the state administrator or advisory board.

Generally accepted accounting principles and prudent business practices require financial statements to accurately reflect income, expenses, assets, and liabilities.

CSAM Procedure 101, Governmental Accounting-Revenue Recognition, states, in part:

In the modified accrual basis of accounting used for governmental funds, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. The term *available* means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period.

Generally, *available* is defined as collectible within 45, 60, or 90 days.

CSAM Procedure 510, Revenue Recognition, Section 8, Categorical Funds Subject to Deferred Revenue, states, in part:

LEAs commonly receive grant awards that are “reimbursement type” or “expenditure driven.” These awards may be mandated by the government or may have been accepted voluntarily by the LEA. The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

CSAM Procedure 510, Revenue Recognition, Section 9, Categorical Funds Subject to Fund Balance, states, in part:

LEAs commonly receive funds for which they have fulfilled specific eligibility requirements or have provided a particular service. For example, a district may be granted funds to transport students, to provide meals to students, or to offer supplemental classes to at-risk students. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA’s ending fund balance.

Due to the issues noted in the finding, we will issue a disclaimer of opinion because we cannot determine whether accounts receivables are fairly stated.

Recommendation

The district should:

- Record all transactions according to generally accepted accounting principles and the CSAM instructions;
- Contact the Alameda County Office of Education or County Treasurer to obtain the correct 4th quarter interest before finalizing closing its books;
- Monitor its receivables to ensure they continue to meet the definition of collectible, if not write-off the receivable;
- Obtain board or state administrator approval before writing off receivables; and
- Maintain and provide to the auditors, upon request, documentation to support transactions recorded in its accounting records.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-09—
Deferred revenue
unauditable
(30000)**

Our review of deferred revenue disclosed that the district deferred a total of \$1,122,250 local revenue at June 30, 2005 (fiscal year 2004-05); however, the district's 2005-06 Form CAT did not list any of the 34 resource codes/programs or the carryover for those resource codes/programs. Because the Form CAT did not include the liability for the local deferred revenue by resource code/program, we were unable to verify that the amount of revenue deferred for each resource code/program at prior year-end was accurately carried forward to the current year.

At June 30, 2005 (fiscal year 2004-05), and June 30, 2004 (fiscal year 2003-04), the district reported deferred revenue of \$1,159,400 in the Special Reserve Fund for Capital Outlay Projects. During the fiscal year 2005-06, the district established a "Due To" the Building Fund in the Special Reserve Fund for Capital Outlay Projects. The district maintains that the funds are being transferred to reimburse the Building Fund for expenditures made in prior years; however, no documentation of the prior year expenditures was provided. The district recorded the deferred revenue by an unrestricted resource code, 0000, so it is not possible to determine the source of the funds, and therefore, the allowable uses for the funds.

At June 30, 2005 (fiscal year 2004-05), the district reported deferred revenues of \$974,369 in the child development fund; however, the Form CAT for the Child Development Fund does not indicate any revenues deferred from the 2004-05 fiscal year.

Good internal controls and prudent business practices require that revenues be accurately recorded and reported, and be supported by adequate documentation. In addition, prudent business practices require district management to monitor categorical programs to ensure compliance with all program requirements; doing so would include deferring revenue and restricting fund balances as needed.

We will disclaim on deferred revenue because of the issues noted in this finding.

Recommendation

The district should report deferred revenue, object code 9650, by program and resource code. District management should review records to ensure that the amount of revenue deferred from the prior fiscal year is accurately carried forward to the current fiscal year.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-10—
Internal control
deficiencies over
purchases
(30000)**

Our review of 40 expenditure transactions, totaling \$7,911,866, paid from the General Fund, disclosed the following:

- For 3 out of 40 expenditures tested, totaling \$228,106, the district did not provide an invoice and warrant in support of the payment.
- For another 3 out of 40 expenditures tested, totaling \$456,243, the district provided a copy of the warrant and the invoice, but they contained no signature or evidence of payment approval.
- For 5 out of 40 expenditures tested, totaling \$1,702,351, the district did not provide a purchase order in support of funds encumbered.
- For 1 out of the 40 expenditures tested, the district paid \$305,369 in excess of a \$6,000,000 open purchase order limit with Durham Transportation, but could not provide evidence of authorization for exceeding this limit.
- For 1 out of the 40 expenditures tested, totaling \$79,439 paid to AC Transit, the district posted the expenditure to an object code for supplies instead of transportation.

Good internal controls and prudent business practices require that purchases be adequately supported, and properly approved, and that funds be properly encumbered.

Due to the internal control issues noted in our testing and the deficiencies we observed elsewhere for payroll (see Finding 06-04), we discontinued performing further testing and are disclaiming an opinion on expenditures. This disclaimer is further necessitated, given that payroll constitutes 75% of operating expenditures in the general fund.

This is a partial repeat of prior year Finding 05-08.

Recommendation

District management should establish internal controls and policies and procedures to ensure that purchases are adequately supported and properly approved, and that funds and expenditures are properly encumbered.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-11—
Accounts payable
deficiencies
(30000)**

We did not audit accounts payable for the following reasons:

- \$2,402,924 in payables was accrued from payroll registers that are unreliable because of deficiencies in the payroll system (see Finding 06-04, Payroll deficiencies).
- Accounts payable summaries for the Adult Education and Child Development funds were not provided to us. These two funds reported a combined balance of \$1,227,707 in the unaudited actuals.
- The district uses the Bitech system for all of its financial accounting. This system does not allow the district to readily obtain a comprehensive list of outstanding accounts payable items. For example, in order to determine the outstanding account payable items at any point in time the district staff must review approximately 30,000 transactions and determine which items offset each other. This process is cumbersome, time-consuming and must be done outside of the Bitech accounting system. Even though the district provided this summary of activity on March 20, 2008, we mutually agreed not to audit non-payroll liabilities because our disclaimer on the district's financial statements as a whole would not change.

Good internal controls and prudent business practices require that accounts payable be valid, accurate, complete, adequately supported, and reconciled on a timely basis.

If liabilities are not accurately reported and properly cleared, the district's financial statements will not properly reflect its liabilities.

Recommendation

The district should:

- Develop a report within the Bitech system that will identify individual outstanding accounts payable items at any point in time. This report should include but not be limited to the date on which the liability occurred (invoice date) and the vendor name.
- Identify and evaluate individual accounts payable balances by fund in order to determine whether the balances are correct.
- Regularly reconcile the report to the general ledger and determine the validity of the items included in the report.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-12—
Self-insurance fund
deficiencies
(30000)**

The district is not accurately accounting for its self-insurance obligation. In our review of the self-insurance fund, we determined that the district did not record some of the fiscal year 2005-06 fund activity. We noted that the district did not record the fiscal year 2005-06 estimated actuarial increase to the self-insurance obligation. The actuary review for general liability performed by Bay Actuarial Consultants estimated that funds of \$3,396,000 on June 30, 2006, would provide a 70% probability of being adequate. Therefore, the self-insurance obligation is understated by \$3,396,000.

We noted that the district paid Metropolitan Life Insurance Co. premiums from the self-insurance fund, but should have done so through its payroll clearing account.

We also noted the district is not recording 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.

The following entry is required to record the district's self-insurance obligation related to general liabilities that has not been reflected in the district's accounting records. The amount is based on a report dated March 2006 that reflects the district's actuarially determined obligation as of June 30, 2006.

<u>Fund Name</u>	<u>Fund No.</u>	<u>Object Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Self Insurance	67	9793	Audit Adjustments	\$ 3,396,000	
Self Insurance	67	9669	Other general long term debt		\$ 3,396,000

The following entry is required to correct the recording of insurance expenditures paid to Metropolitan Life Insurance Company that should have been paid through the payroll clearing account (warrant/pass-through fund). This entry reclassifies the expenditures to the Warrant/Pass Through fund. This entry is similar to an adjustment that was also required in the prior year's audit (see finding 05-11).

<u>Fund Name</u>	<u>Fund No.</u>	<u>Object Code</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Self Insurance	67	9200	Accounts receivable	\$ 255,329	
Self Insurance	67	5450	Other insurance		\$ 255,329
Warrant/Pass-Thru	76	9580	Other deductions	\$ 255,329	
Warrant/Pass-Thru	76	9500	Accounts payable		\$ 255,329

In addition, we noted that the district did not provide an actuarial estimate for the dental insurance portion of its self-insurance obligation or explain why an actuarial estimate would not apply. Therefore, we cannot determine whether the district has established an adequate reserve to cover potential dental claims.

Due to the unknown nature of any possible adjustments required in cash, accounts receivable, due to/due from, revenue, and payroll, and the unknown effect of any possible adjustments, we are also disclaiming an opinion on the self-insurance fund. As a result, the entries noted above

have not been posted as adjustments in the accompanying financial statements.

Education Code section 42141 states:

(a) If a school district or county office of education, either individually or as a member of a joint powers agency, is self-insured for workers' compensation claims, the superintendent of the school district or county superintendent of schools, as appropriate, annually shall provide information to the governing board of the school district or the county board of education, as appropriate, regarding the estimated accrued but unfunded cost of those claims. The estimate of costs shall be based on an actuarial report that incorporates annual fiscal information and is obtained by the superintendent at least every three years. The actuarial report shall be performed by an actuary who is a member of the American Academy of Actuaries. If the school district or county office of education regularly contracts for an actuarial report for other fiscal matters, a separate actuarial report is not required, if the estimate of costs required by this subdivision is separately and clearly set forth in that report.

(b) The cost information required by subdivision (a) and a copy of the actuarial report on which the estimated costs are based shall be presented by the superintendent at a public meeting of the governing board. At that meeting, the governing board shall disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the accrued but unpaid workers' compensation claims or if it is otherwise decreasing the amount in its workers' compensation reserve fund.

CSAM Procedure 470 states, in part:

Long-term obligations directly related to enterprise funds, internal service funds, and fiduciary trust funds and that are expected to be repaid from those funds should be reported as liabilities of those funds.

The Governmental Accounting and Financial Reporting Standards (Statement 34 Edition), Section C50.110, states:

. . . governmental entities should report an estimated loss from a claim as an expenditure/expense and as a liability if both these conditions are met:

- Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements...
- The amount of loss can be reasonably estimated.

This is a partial repeat of prior year Findings 03-56, 04-21, and 05-11.

Recommendation

The district should:

- Properly record revenues and expenditures and long-term obligations in the self-insurance fund;
- Record the adjustments outlined in the finding;
- Ensure that the established self-insurance obligations are appropriately and accurately recorded; and
- Determine the amount of any obligation associated with its dental self-insurance program.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-13—
Fund balance
restatement journal
entries not supported
by adequate
documentation
(30000) (60000)**

During our review of the district’s fund balance restatements, we were unable to determine that the following restatements were appropriate and properly authorized:

- The district restated the Self-Insurance Fund (fund 67) fund balance in the amount of \$1,491,371. This restatement was made to correct the balance for fund 67, due to prior-year dental contributions recorded as current-year contributions. This amount represents the contributions made from March through June 2005. The district did not provide documentation to verify that these contributions were recorded in fund 67 and are a proper restatement.
- The district restated the Building Fund (fund 21) fund balance in the amount of \$5,790,492. The journal entry stated the purpose was “to restate prior year expenditures in fund 21 to utilize the state allocation in current year.” The supporting documentation does not provide adequate evidence that these expenditures should have been transferred from prior years’ expenditures and included in the current year’s expenditures. In addition, fund 21 exists primarily to account separately for the proceeds from the sale of bonds and should not be used for any purposes other than those for which the bonds were issued.

Good internal controls and prudent accounting practices require that all transactions be valid, accurate, adequately supported, and properly authorized.

The district may not be reflecting revenues and expenditures in the correct period. Due to the material uncertainties of these amounts, we will disclaim an opinion on fund balances.

Recommendation

District management should ensure that it maintains adequate documentation supporting all restatements to fund balances. In addition, all material fund balance restatements should be approved by the Board and/or State Administrator.

District’s Response

The district chose to not provide a response to this finding.

**FINDING 06-14—
Inadequate controls
over due to/from
account transactions
(30000)**

We reviewed each of the district's 46 interfund loans classified in the due to/due from account and discovered that the district has not liquidated nine prior-year (fiscal year 2004-05) loans as part of the accounts payable or between funds repayment process during fiscal year 2005-06.

Fund 01 – Due to other funds

JE 5745 – Due to Fund 13 – Special Activities Billings	\$ 508
JE 5899 – Due to Fund 21 – Set up Due To/Due From JE#5357	378
JE 6486 – Due to Fund 14 – Deferred maintenance match 2004-05	<u>2,135,128</u>
Total	<u>\$ 2,136,014</u>

Fund 12 – Due to other funds

JE 5743 – Due to Fund 13 – Non Reimb 06/05 NSL Pre-K	\$ 4,701
JE 5744 – Due to Fund 13 – Non Reimb 05/05 NSL Pre-K	6,603
JE 5753 – Due to Fund 13 – Non Reimb 05/05 ECE Claim	48,014
JE 5837 – Due to Fund 13 – Non Reimb 06/06 ECE Claim	<u>53,333</u>
Total	<u>\$ 112,651</u>

Fund 25 – Due to other funds

JE 6486 – Due to Fund 01 – Deferred maintenance match 2004-05	\$ 2,135,128
JE 5934 – Due to Fund 21– Correct Error on JE FP063005	<u>623</u>
Total	<u>\$ 2,135,751</u>

Fund 01 – Due from other funds

JE 6486 – Due from Fund 25 – Deferred maintenance match 2004-05	\$ 2,135,128
Total	<u>\$ 2,135,128</u>

Fund 13 – Due from other funds

JE 5743 – Due from Fund 12 – Non Reimb 06/05 NSL Pre-K	\$ 4,701
JE 5744 – Due from Fund 12 – Non Reimb 05/05 NSL Pre-K	6,603
JE 5745 – Due from Fund 01 – Special Activities Billings	508
JE 5753 – Due from Fund 12 – Non Reimb 05/05 ECE Claim	48,014
JE 5837 – Due from Fund 12 – Non Reimb 06/06 ECE Claim	<u>53,333</u>
Total	<u>\$ 113,159</u>

Fund 14 – Due from other funds

JE 6486 – Due from Fund 01 – Deferred maintenance match 2004-05	\$ 2,135,128
Total	<u>\$ 2,135,128</u>

Fund 21 – Due from other funds

JE 5934 – Due from Fund 25– Correct Error on JE FP063005	\$ 623
JE 5899 – Due from Fund 01 – Set up Due To/Due From JE#5357	<u>378</u>
Total	<u>\$ 1,001</u>

Funds cannot fully use their assets, such as earning interest on cash in county treasury, if temporary loans are not repaid in a timely manner.

Education Code section 42603 states:

The governing board of any school district may direct that moneys held in any fund or account may be temporarily transferred to another fund or account of the district for payment of obligations. The transfer shall be accounted for as temporary borrowing between funds or accounts and shall not be available for appropriation or be considered income to the borrowing fund or account. Amounts transferred shall be repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year. Borrowing shall occur only when the fund or account receiving the money will earn sufficient income, during the current fiscal year, to repay the amount transferred. No more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be transferred.

Good internal controls and prudent accounting practices require that all transactions be valid, accurate, adequately supported, and properly classified. In addition, assets such as cash should be handled in an efficient manner.

Recommendation

The district should ensure that due to/due from accounts are liquidated during the normal accounts payable process. Also, the district should implement policies and procedures to ensure that longer-term transactions are periodically removed from the due to/from accounts and reclassified as advances.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-15—
Interfund transfer
journal entries not
supported by adequate
documentation
(30000)**

We did not complete our review of the district's interfund transfers because the district did not provide adequate supporting documentation for 10 of the 14 interfund transfers we reviewed. The deficiencies observed were as follows:

- For 1 out of 14 interfund transfers, the district did not provide a copy of the journal entry or any supporting documentation.
- For 2 out of 14 interfund transfers, the district did not provide any supporting documentation for the interfund transfers.
- For 7 out of 14 interfund transfers, the district provided a journal entry with accompanying documentation, but the documentation was either incomplete or did not adequately explain and support the interfund transfers.

Due to the inadequate documentation provided and the resulting scope limitation on our testing, we are disclaiming on interfund transfers.

Good internal controls and prudent accounting practices require that all transactions be valid, accurate, and adequately supported.

Recommendation

The district should ensure that interfund transfers are valid and adequately supported.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-16—
Long-term liabilities
understated
(30000) (60000)**

Our review of the state school building loans and the charter school revolving loans revealed that the liabilities had been understated in prior financial statements and audit reports. The district had not provided debt service schedules or disclosed the existence of all loans during the prior years’ audits, and the loan balances were understated by \$135,442. Although the immaterial amount does not require an audit adjustment, the district should record the corrected balance. The adjustments are based upon loan repayment schedules that the district provided during the 2005-06 audit.

The restatements to adjust the liabilities to the correct balance are as follows:

- The ending balance of the state school building loan was understated in the 2004-05 FY financial statements. An adjusting journal entry is needed to correct the balance at June 30, 2006:

Fund Name	Fund		Object Description	Debit	Credit
	No.	Code			
State School Building-Lease-Purchase Fund	30	9662	State School Building Loans	\$ 76,710	
State School Building-Lease-Purchase Fund	30	9792	Restatement		\$ 76,710

- The ending balance of the charter school revolving loan was understated in the 2004-05 financial statements. A restatement entry is needed to reflect the correct ending balance at June 30, 2006:

Fund Name	Fund		Object Description	Debit	Credit
	No.	Code			
Charter Schools-Special Revenue Fund	09	9669	Other general long-term debt	\$ 58,732	
Charter Schools-Special Revenue Fund	09	9792	Restatement		\$ 58,732

Prudent business practices require liabilities to be reported in an accurate, thorough, and timely manner.

We are disclaiming on long-term debt due to unexplained adjustments and the district’s inaccurate reporting of debt activity. (See Finding 06-04, Payroll Deficiencies; Finding 06-12, Self Insurance Fund Deficiencies; Finding 06-17, Long-Term Debt Activity Not Recorded; Finding 06-18, Deficiencies in Accounting for Emergency Apportionment Loan; Finding 06-19 Certificates of Participation Debt Service Payment Not Accurately Recorded; and Finding 06-20, Documentation Not Provided for Capital Leases).

Recommendation

The district should:

- Maintain an accurate and complete debt schedule of all outstanding obligations.
- Post the restatement journal entries.
- Provide complete and accurate accounting information and supporting documents to the auditors, upon request.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-17—
Long-term debt activity
not recorded
(30000) (60000)**

Our review of the district's long-term debt activity disclosed that the district did not record the following transactions for its bonds or the emergency apportionment loan:

- Fiscal year 2005-06 accrual for prior bond issuance costs;
- Accrual for bond issuance costs and accrued interest for bonds issued in fiscal year 2005-06; and
- \$6,570,914 for Other Worksheet Adjustments/increase to general obligation bonds as part of the conversion entries

In addition, the district did not provide any support for the \$6.5 million increase to general obligation bonds.

CSAM Procedure 705 states, in part:

It is important that bond issuance transactions be presented correctly in the fund statements and the government-wide statements. The accounting must reflect the bonds' selling price, any issue costs deducted from the proceeds, and any accrued interest included in the selling price.

Because the district did not record the financial activity of the bonds or emergency apportionment loan, its bond issuance costs and discount/premium is overstated in the year of the bond issuance and understated in subsequent years. In addition, the amount of general obligation bonds payable reported in the district's financial statements is not supported by debt service schedules. Therefore, we will issue a disclaimer of opinion because we cannot determine whether long-term debt is fairly stated.

Recommendation

The district should:

- Implement policies and procedures to ensure that the district staff is properly trained to determine and account for bond issuance costs;
- Ensure that the information disclosed in the district's financial statements is accurate and complete; and
- Maintain sufficient and adequate documentation to support adjustments made to long-term debt instruments.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-18—
Deficiencies in
accounting for
emergency
apportionment loan
(30000) (60000)**

Our review of the refinance of the emergency apportionment loan disclosed the following issues:

- On December 1, 2005, the district refinanced its \$56,648,758 emergency apportionment loan with I-Bank; however, the district did not record the transaction in its general ledger or schedule of long-term liabilities (Form DEBT). The \$3,201,242 difference in the par amount of the 2005C Bonds issued on behalf of Oakland Unified School District (\$59,850,000) and the amount outstanding on the original General Fund loan (\$56,648,758) was offset by the portion of the new par amount that was used to pay costs of issuance (COI) and to fund the capitalized interest account (CAPI). Those amounts (the COI and CAPI) totaled \$3,201,242.
- The district has not recognized \$1,440,889 of capitalized interest on the emergency apportionment loan. The capitalized interest consists of the fiscal year 2005-06 interest expense of \$66,733 paid on February 15, 2006, and \$1,030,617 ($1,374,156 \times \frac{3}{4}$), which is the accrued interest from February 16 through June 30. The remaining capitalized interest balance of \$343,539 ($\$1,374,156 - \$1,030,617$) should be included in the Cash With Fiscal Agent account.

Interest Expense-	February 15	\$ 66,733
Interest Expense-	February 16–June 30	1,030,617
Capitalized Interest-	July 1–August 15	343,539
Total Capitalized Interest (CAPI)		<u>\$ 1,440,889</u>

- The district did not capitalize or amortize the \$1,760,353 cost of issuance.
- The district (and I-Bank) was not able to provide a complete debt schedule. The district did not provide information regarding the refinancing of its debt, but I-Bank was able to provide a schedule of principal payments. We compiled the schedule of principal and interest payments based on the principal payment schedule provided and the maximum interest rate possible per the rate provision in the refinance agreement.

The district should record the following entries to recognize the refinancing of the emergency apportionment loan:

Description	Account Number	Debit	Credit
Cash with fiscal agent operating expenditures	01-0000-0-0000-0000-9135	\$ 58,089,647	
Professional/consulting services and operating expenditures	01-0000-0-0000-9100-5800	\$ 1,760,353	
All other financing sources	01-0000-0-0000-9100-8979		\$ 59,850,000
Other debt service-principal	01-0000-0-0000-9100-7439	\$ 56,648,758	
Cash with fiscal agent	01-0000-0-0000-0000-9135		\$ 56,648,758

The district should record the following entries to recognize the interest expense paid on February 15, 2006 and accrued at June 30, 2006:

Description	Account Number	Debit	Credit
Debt service-interest	01-0000-0-0000-9100-5800	\$ 1,097,350	
Cash with fiscal agent	01-0000-0-0000-0000-9135		\$ 66,733
Accounts payable	01-0000-0-0000-0000-9500		\$ 1,030,617

The following conversion entries should have been made to reflect the refinancing of the emergency apportionment loan. The audited financial statements reflect these conversion entries.

Description	Account Number	Debit	Credit
All other financing sources	01-0000-0-0000-9100-8979	\$ 59,850,000	
Professional/consulting services and operating expenditures	01-0000-0-0000-9100-5800		\$ 1,760,353
Prepaid expenses	01-0000-0-0000-0000-9330	\$ 1,760,353	
Emergency apportionment loan	01-0000-0-0000-0000-9668		\$ 59,850,000
Emergency apportionment load	01-0000-0-0000-0000-9668	\$ 56,648,758	
Other debt service principal	01-0000-0-0000-9100-7439		\$ 56,648,758

The following conversion entries should be made to reflect the amortization of issuance cost. The audited financial statements reflect these conversion entries.

Description	Account Number	Debit	Credit
Debt service-other operating expenditures	01-0000-0-0000-9100-5800	\$ 58,125	
Prepaid expenses	01-0000-0-0000-0000-9330		\$ 58,125

Our analysis also disclosed that the district overpaid \$587,542 in interest on the emergency apportionment loan in the State of California's general fund as follows:

General Fund Portion:

Period Ended	Principal	Interest at 1.778%	Annual Debt Service	Balance
12/01/05	\$ —	\$ 440,660	\$ 440,660	\$ 59,481,707
12/01/05	56,648,758	—	56,648,758	59,481,707
06/30/06	2,832,949	29,383	2,862,332	2,832,949
Totals	<u>\$59,481,707</u>	<u>\$ 470,043</u>	<u>\$ 59,951,750</u>	—

Reconciliation of Fiscal Year 2005-06 Interest Payment:

Fiscal year 2005-06 interest expense—07/01/05-11/30/05	\$ 440,660
Fiscal year 2005-06 interest expense—12/01/05-06/30/06	29,383
Total fiscal year 2005-06 interest expense	470,043
Total fiscal year 2005-06 interest expense accrued (\$3,890,534 – \$2,832,949)	(1,057,585)
Fiscal year 2005-06 interest expense overpayment	<u>\$ (587,542)</u>

Generally accepted accounting principles and prudent business practices require financial statements to accurately reflect all transactions. Generally accepted governmental accounting principals require an accurate accounting of bond issuance costs and capitalized interest and debt liability balances.

Recommendation

The district should:

- Implement policies and procedures to ensure that the financial information reported in its unaudited actuals is complete and accurate;
- Maintain an accurate schedule of its long-term obligations; and
- Contact the SCO's Division of Accounting and Reporting to determine if it is entitled to a refund of the \$587,542 overpayment or if the overpayment should be applied to the principal portion of the loan.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-19—
Certificates of
participation debt
service payments not
accurately reported
(30000) (60000)**

We reviewed the district's Certificates of Participation (COPs) and determined that the amount of interest expense reported in the unaudited actuals did not agree with the COPs debt service schedule. We reviewed the payments sent to the fiscal agent and determined that the district had combined activities such as service-charge expenses and interest earned with the interest expense in Debt Service-Interest (object code 7438) in Fund 56.

In addition, we noted that the district does not record activity that occurs in its Cash with Fiscal Agent account maintained to administer debt service payments for the COPs. We noted that the district was not recording the movement of funds from the Cash in County Treasury account to the Cash with Fiscal Agent account. The amount of cash reported in the Debt Service Fund, Cash With Fiscal Agent account, \$100,647, had not changed from the 2004-05 fiscal year. The General Fund, Cash With Fiscal Agent account had been closed on June 30, 2006; however, the unaudited actuals reported \$802,544 in the Cash With Fiscal Agent account.

The district failed to accurately record COPs interest expense, interest revenue, service charge expense, and other fees. It is not possible to determine the effect the recording errors has on the financial statements because the district does not reconcile the cash with fiscal agent account. Therefore, we must disclaim on long-term debt—interest expense, cash, expenses, and revenue. (See Finding 06-05, Cash account deficiencies; and Finding 06-07, Revenue unauditible; Finding 06-10, Internal control deficiencies over purchases; and Finding 06-17, Long-term debt activity not recorded.)

CSAM Procedure 205 states, in part:

Before a transaction is recorded in the books, it must first be analyzed to determine which funds and accounts are affected by the transaction and how they are affected. Analyzing a transaction involves the following steps:

1. Identify which fund or funds are affected by the transaction.
2. Identify the accounts in the other five SACS fields (resource, goal, project year, function, and object) that are involved in the transaction.
3. Determine whether each account combination increased or decreased to determine what will be debited and what will be credited.
4. Determine the amount by which each account combination was affected.

Good internal controls and prudent business practices require that all financial activity be accurately reported.

Recommendation

The district should:

- Reconcile its Cash With Fiscal Agent account;
- Categorize COPs expenses into its proper object code;
- Separately record all COPs activity that occurs in the Cash With Fiscal Agent account; and
- Make journal entries to record the movement of funds from the Cash in County Treasury to the Cash With Fiscal Agent account.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-20—
Documentation not
provided for capital
leases
(30000) (60000)**

We attempted to verify the district's assertion that it had no capital leases by reviewing a sample of leases. However, the district did not provide 20 of the 22 requested lease agreements. The lease agreements were not provided because the district could not locate the lease agreements. Due to this limitation of our testing, we cannot confirm the district's assertion that it had no capital leases.

CSAM Procedure 710 states, in part:

Governmental Accounting and Financial Reporting Standards (GASB Codification) Section L20.109 requires that a lease agreement that meets any one of the following criteria be capitalized:

The lease transfers ownership of the property to the lessee by the end of the lease term.

1. The lease contains a bargain purchase option.
2. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
3. The value at the beginning of the lease's term of the minimum lease payments, excluding that portion of the payments representing executory cost to be prepaid by the lessor but including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease.

Good internal controls and prudent business practices require that the district adequately maintain records of lease agreements with other entities.

Recommendation

The district management should maintain and review all of its lease agreements to determine whether they are properly classified. In addition, the district should provide copies of its agreements to the auditor upon request.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-21—
Conversion entries
not posted
(30000) (60000)**

The financial reports provided by the district were incomplete and inaccurate. The district did not post all necessary conversion entries. The following entries should have been posted:

1. CE009—The liability for compensated absences to adjust for the change in liabilities for compensated absences not accrued in governmental funds.
2. CE010—The elimination of expenditures in governmental funds relating to a prior period (such as prior year liability for unmatured interest on long-term debt).
3. CE012—The current year depreciation expense or adjustment to the related contra-assets accounts for accumulated depreciation.
4. CE013—The amortization of premiums, discounts, and deferred charges relating to long-term debt.
5. CE015—The elimination of the change in net assets in the internal service fund.

In addition, the district did not prepare an accurate and complete set of financial statements. The following deficiencies were noted:

- “The Government-wide Statement of Activities, Report GSA,” did not reflect:
 - Any charges for services
 - The self-insurance fund’s change in net assets
- “The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities, Report GSA,” did not reflect:
 - Expenditures for capital outlay
 - Depreciation expense
 - Debt service payments
 - Bond issue costs incurred during the fiscal year
 - Bond issue costs amortized for the fiscal year
 - Unmatured interest on long-term debt for the current fiscal year
 - Reversal of interest on long-term debt for prior fiscal year

CSAM Procedure 101 states, in part:

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

- Management Discussion & 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.

GAAP and prudent business practices require financial statements to accurately reflect all transactions.

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 and policies and procedures that ensure that all necessary conversion entries are posted and financial reports are complete and accurate.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-22—
Deferred maintenance
grant not properly
matched
(30000) (60000)**

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

- The district transferred \$1,982,193 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.
- Per the unaudited actuals, the district received \$2,066,052 as state revenue, but contributed \$2,028,679.

Transferred in	\$ 1,982,193
1/2 interest (\$92,971/2)	<u>46,486</u>
Total district contribution	<u>\$ 2,028,679</u>

The district failed to match the state’s share by \$37,373 (\$2,066,052 – \$2,028,679).

- The district does not track bond proceeds by measure or issue, so we cannot determine whether deferred maintenance is an allowable use of the proceeds.

Education Code section 17582 states:

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, Section 1866.4.3 states, in part:

The district’s deposit must be a cash contribution from any non-restricted fund, unmatched carryover pursuant to Section 1866.4.4, or from the district’s restricted Ongoing and Major Maintenance Account.

CCR, Title 2, Section 1866.12 states, in part:

Earned interest on State funds received in accordance with the Act shall be treated as follows:

- (a) One half of any interest earned on DMP grant funds provided pursuant to Section 1866.4.2 may be applied towards the district match in any given fiscal year.

CSAM Procedure 551 states, in part:

Interfund transfers are flows of assets without equivalent flows of assets in return and without a requirement for repayment. The two major categories of interfund transfers are:

1. *Residual equity transfers.* Residual equity transfers are nonrecurring or nonroutine transfers of equity between funds. . . .

2. *Operating transfers.* Operating transfers, which comprise all interfund transfers other than residual equity transfers, are routine, legally authorized transfers between funds. . . .

Both residual equity transfers and operating transfers are nonreciprocal interfund activities. Reciprocal interfund activities, such as interfund loans and interfund services provided and used, are not recorded as interfund transfers.

This is a repeat of prior year Finding 05-06. The district disagreed with the prior year finding and indicated that it would obtain a legal opinion. The district did not provide a legal opinion to the State Controller's Office.

Recommendation

The district should:

- Obtain a legal opinion regarding the use of bond proceeds as the district's matching share for the deferred maintenance program.
- Transfer \$1,982,193, plus interest, back to the building fund from the deferred maintenance fund. Transfers made in prior years should also be reversed.
- Match the state grant for deferred maintenance with unrestricted funds.
- Track bond proceeds by measure and issue.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-23—
County school facilities
fund local match
requirements not met
(30000)**

The district did not expend the required 50% matching (state) funds from local resources for the County School Facilities Fund (Fund 35) for new construction projects pursuant to Education Code section 17072.30, or the required 40% matching (state) funds from local resources for the County School Facilities Fund for Modernization Projects pursuant to Education Code section 17074.16.

In fiscal year 2005-06, local funds in the County School Facilities Fund were insufficient to satisfy Education Code requirements for matching state funding amounts. The unaudited actuals reported \$32,593,106 of state allocation and \$711,941 in interest revenue, whereas total capital outlay during the period amounted to \$30,770,227.

The district does not code expenditures by resource, so even if the district had the available local revenue, it would not be able to identify the portion coming from local revenue sources versus state funding sources in order to determine compliance with Education Code sections 17072.30 and 17074.16.

Education Code section 17072.30(a) states:

Subject to the availability of funds, and to the determination of priority pursuant to Section 17072.25, if applicable, the board shall apportion funds to an eligible school district only upon approval of the project by the Department of General Services pursuant to the Field Act, as defined in Section 17281, and certification by the school district that the required 50 percent matching funds from local sources have been expended by the district for the project, or have been deposited in the county fund, or will be expended by the district by the time the project is completed, in an amount at least equal to the proposed apportionment pursuant to this chapter, prior to the release of the state funds.

Education Code section 17074.16(a) states:

The board shall release disbursement to school districts with approved applications for modernization, to the extent state funds are available for the state's 60-percent share, and the school district has provided its 40-percent local match.

If the district is not able to demonstrate that it is meeting local funding match requirements, the availability of funds to the district for new construction and modernization may be in jeopardy.

Recommendation

The district should comply with Education Code sections 17072.30 and 17074.16. Expenditures should be coded with the proper standardized account code structure resource code to ensure an audit trail and demonstrate compliance with Education Code requirements.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-24—
Stores inventory
overstated
(30000) (60000)**

The district's stores inventory-food report did not support the amount of stores inventory-food reported in the unaudited actuals. The stores inventory-food report had a total value of \$66,416 as of June 30, 2006; however, the district reported the inventory value at \$188,109. The June 30, 2005, audit report contained the dollar value of food inventory. The district failed to make a journal entry during the fiscal year 2005-06 to correct the value of inventory reported in the unaudited actuals.

Therefore, the balance of the stores inventory is overstated by \$121,693.

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:

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.

Recommendation

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

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-25—
Insufficient bidding
documentation
(30000)**

Our review of nine projects to determine whether the district complied with the policies and procedures in its procurement manual and the Public Contract Code for its bid process disclosed that, for all nine projects reviewed, we were unable to identify the person who opened the bids or the witnesses to the bid openings. Documentation of such individuals is required in Article XVIII, Section 18.06 of the district's procurement manual.

Article XVIII, Section 18.06 states:

Bid Opening documentation shall be prepared at the time of the opening, and shall contain the following information:

- The names of all persons in attendance at the Bid Opening
- The name of each bidder
- The time and date each bidder's bid was submitted
- The time and date each bidder's bid was opened
- The grand total bid price of each bid
- The signatures of the person opening the bids and the persons witnessing the bid opening

This condition has continued in each of the three prior years' audits. This is a repeat of Findings 03-40, 04-19, and 05-09.

Recommendation

The district should:

- Document and maintain the identity of the person performing and witnessing the bid opening;
- Comply with its procurement manual; and
- Ensure that staff is adequately trained and informed as to its policies and procedures related to bidding.

District's Response

The district chose to not provide a response to this finding.

**FINDING 06-26—
Lack of approval and
supervision of
construction projects
(30000)**

In our review of nine construction projects, we were unable to determine whether the district obtained approval and supervision for each project from the Division of State Architects (Department of General Services). We used the application number for the project listed on the Division of State Architects (DSA) web site to determine project status.

In regard to the approval of projects, we found the following discrepancies:

- McClymonds Small Schools Project (Application No. 107349): The DSA does not list any date for the project's approval and the stated contract amount is zero.
- Markham Elementary School Paving Project: The district was not able to provide an application number and the project was not listed on the DSA web site. Thus, we are unable to determine that DSA approval was obtained for this project.

In regard to the supervision of projects, we found the following discrepancies:

- McClymonds Small Schools Project (Application No. 107349): Although the DSA shows that a project professional was assigned, the supervision of the project is in question because approval of the project is not certain and the contract amount is not stated.
- Markham Elementary School Paving Project: As the district was unable to provide a DSA application number for the project and the project was not listed on the DSA web site, we cannot determine whether there was any approval or supervision of the design and construction of the project.

We also observed that the King Estates Small Schools Project (Application No. 108172) contract amount of \$593,000 per the district did not agree with the contract amount of \$743,000 per the DSA. The one known change order amount of \$55,678 per DSA does not fully account for the \$150,000 contract price difference.

Education Code section 17280(a)(1) states:

The Department of General Services . . . shall supervise the design and construction of any school building or the reconstruction or alteration of or addition to any school building, if not exempted under Section 17295, to ensure that plans and specifications comply with the rules and regulations adopted pursuant to this article and building standards published in Title 24 of the California Code of Regulations, and to ensure that the work of construction has been performed in accordance with the approved plans and specifications, for the protection of life and property.

Education Code section 17295(a)(1) states:

The Department of General Services shall pass upon and approve or reject all plans for the construction or, if the estimated cost exceeds twenty-five thousand dollars (\$25,000), the alteration of any school building.

If the district is not able to demonstrate that project approvals are obtained and supervision is occurring as required, the availability of project funds could be impeded, resulting in work stoppages while the status of approvals and supervision is determined or obtained.

Recommendation

The district should:

- Confirm the status for approval and supervision of each of its projects and comply with Education Code sections 17280 and 17295;
- Account for contract cost amounts and provide support for any differences from DSA's approvals; and
- Assign staff to periodically review the status of its projects on the DSA Web site to ensure uniformity with district records and compliance with Education Code requirements.

District's Response

The district chose to not provide a response to this finding.

SECTION III—FEDERAL AWARD FINDINGS**FINDING 06-27—
Internal control
deficiencies over
federal program
expenditures
(30000) (50000)****CFDA #10.555, #84.010,
and #84.027—
U.S. Department of
Agriculture, U.S.
Department of Education,
California Department of
Education**

We observed deficiencies in the district’s expenditure payment process for each of the three major federal grant programs we reviewed. The expenditure deficiencies noted were based on a random sample of transactions selected from each program. A summary of the expenditure deficiencies, noted by program, is as follows:

National School Lunch Program (NSLP)

Expenditures were not properly authorized for payment and insufficient records were maintained as source documents. Auditors noted that 9 of 33 invoices reviewed had deficiencies (e.g., invoices were not properly approved for payment and no documentation was maintained for some of the expenditures selected for review), resulting in questioned costs of \$235,004.

Title I

Expenditures were not properly authorized for payment and records were not properly maintained to support payments. Auditors noted that 5 of 37 invoices reviewed had deficiencies (e.g. invoices were not properly approved for payment, and some invoices did not have supporting documentation), resulting in questioned costs of \$38,036.

Special Education

Expenditures were not properly authorized for payment. Auditors noted that 3 of 32 invoices reviewed had deficiencies (e.g., source documents were not maintained), resulting in questioned costs of \$44,454.

The A-102 Common Rule and OMB Circular A-110 (Title 2 CFR 215) require that non-federal entities receiving federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

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

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general 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 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 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 all applicable credits.
- j. Be adequately documented.

Good business practices require the district to process and maintain records that support expenditures paid using federal funds.

This condition has remained constant throughout each of the three prior years' audits and was identified in Findings 03-75, 03-78, 04-24, 04-28, and 05-14.

Recommendation

The district should:

- Reimburse the federal government for the amount of any expenditure that was inappropriately charged against its federal programs, or make the necessary adjustments so that expenditures are charged properly;
- Implement a review and verification function in the accounts payable department to ensure that invoices are authorized by the appropriate staff before payments are made;
- Strengthen controls to ensure that invoice documentation is locatable when requested;
- Implement stronger controls that require program managers, or assigned staff, to review federal program budgets and expenditures on a regular basis (at least monthly);
- Require program managers or assigned staff to approve all expenditures;
- Review the various federal programs to ensure that the district is operating in compliance with allowable cost activities of Title 2, CFR 225, Appendix A, Section C; and
- Establish and maintain internal control designed to provide reasonable assurance of compliance with the A-102 Common Rule and OMB Circular A-110 (Title 2, CFR Part 215).

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.
- During the 2008-2009 Fiscal Year, authorized reviewers attended CASBO sponsored training in Categorical Funding Compliance and California Department of Education Categorical meetings and conferences to ensure ongoing compliance updates on categorical program funding requirements.
- During FY 2007-2008, central office leaders participated in an extensive on site training on the compliant use of funds to prepare for the Categorical Program Monitoring process that was presented on site by California Department of Education categorical leadership in October. A follow-up technical support meeting was provided by California Department of Education categorical program staff in April regarding requirements for the upcoming Categorical Program Monitoring process.
- School site leadership is provided with PowerPoint information on the compliant use of funds and individual technical support sessions are provided by Financial Services Budget Associates, State and Federal Compliance staff, and Portfolio Management to ensure compliant program development of each school site's Single Plan for Student Achievement.
- California Department of Education program leadership continues to be consulted on further clarification on the compliant use of funds for specific resources.
- The State and Federal Compliance staff is supporting the Procurement and Legal Departments in revising the procurement contracting process for streamlined service delivery and is expanding internal controls to further ensure that appropriate documentation is elicited from vendors in the Professional Services Contracting process.

Although the specific amounts cited in this audit finding are immaterial when considering the overall categorical budget for the District, the District is committed to improving systems of delivery to ensure the compliant use of funds with appropriate audit documentation for various expenditures.

SCO's Comment

Although the district considers questioned costs totaling \$317,494 to be immaterial, OMB Circular A-133, Section 510(a) requires auditors to report known questioned costs greater than \$10,000 for a type of compliance requirement for a major program. The district should strive to comply with federal program requirements.

**FINDING 06-28—
Inadequate employee
time certification records
(30000) (50000)**

**CFDA #10.555, #84.010,
#84.027—
U.S. Department of
Agriculture, U.S.
Department of Education,
California Department of
Education**

In our review of the district’s major federal programs, we observed that the district did not maintain employee time certification forms for any of the employees funded under any of the major federal programs. In December 2007, the district provided employee time certifications titled “2005-2006 Time Accounting for Federally Funded Personnel-Employees Funded 100% From Federal.” Almost all of these documents were signed in November 2007 and the section A portion of the form indicating fiscal year was incomplete. These time certification forms were signed 17 months after fiscal year 2005-06 completion and after we requested the documentation. The forms covered a 12-month period rather than a semi-annual reporting period required by Title 2, CFR 225.

Employee time certifications were not maintained as follows:

Program	Records Not Maintained	Questioned Costs
NSLP (10.555)	All Employees	\$ 6,444,570
Title I (84.010)	All Employees	13,426,373
Special Education (84.027)	All Employees	426,136
Total		<u>\$ 20,297,079</u>

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

(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, Allowable Costs–Direct Costs, requires:

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 . . .), 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 condition has continued in each of the three prior years’ audits as Findings 03-70, 04-25, and 05-15.

Recommendation

The district should:

- Develop a system to ensure compliance with Title 2, CFR 225, Appendix B, Section 8(h) (OMB Circular A-87) and CSAM Procedure No. 905, which require that employee time certification forms be maintained for employees who charge time to a Federal program; and
- Assign federal program managers to review and ensure that time certifications forms are completed and submitted by federally funded employees in a timely manner commensurate with the time certification reporting requirements.

District’s Response

During the middle of the 2005-2006 Fiscal Year, the District initiated the online process that requires employees time certification forms to be completed and submitted online for employees who charges partial or full time to federal programs. For the 2006-2007 Fiscal Year, the District fully implemented the online tool and is currently conducting an internal audit and corrective action plan to resolve outstanding time certification documentation per a corrective action plan directed by the California Department of Education. Effective Fiscal Year 2007-2008, the State and Federal Compliance Department implemented the following added support services to ensure compliance:

- The Compliance Manager monitors time accounting documentation preparation monthly and provides summary reports regarding compliance to Federal Program Managers, Network Officers and Strategy Team leadership for added follow-up.
- Targeted departments are being offered access to computers to ensure all employees are able to complete the online tool. Online training and instructions are provided to staff in addition to staff support.

- The Compliance Manager is supporting the National School Lunch Program staff in completing a certification process of all employees to ensure full compliance for the 2006-2007 and 2007-2008 Fiscal Years on May 8, 2008.
- Targeted program managers have been contacted to facilitate online computer tool access to employees through the end of the school year for monthly and semi-annual time certification record tracking.

**FINDING 06-29—
National school lunch
program: expenditure
and reimbursement
claim internal control
weaknesses
(30000) (50000)**

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

While reviewing the district's National School Lunch Program, we noted the following internal control weaknesses:

- 1 out of 33 expenditures did not encumber sufficient funds to pay the invoice.
- 12 out of 33 expenditures had purchase orders that were not issued prior to paying the invoices.
- 3 out of 33 expenditures were not encumbered in the correct fiscal year.
- 1 out of 33 expenditures show an invoice paid to a different vendor than the name shown on the purchase order.
- 2 out of 33 expenditures show invoices paid from statements rather than from actual invoices.
- 1 out of 33 expenditures did not have a supporting purchase order.
- 1 out of 33 expenditures did not have a purchase order reference number on the purchase order.

Other internal control weaknesses we identified while reviewing claim reimbursements are as follows:

- Cafeteria Meal Count Summaries for 5 out of 12 months had beginning balances that did not trace to the Monthly Edit Check summaries.
- A Cafeteria Meal Count Summary for 1 out of 12 months had meal count report totals for an elementary school that did not agree to the school site's edit check totals.
- For 2 out of 65 sites reviewed, snacks were being served prior to the snack program start date.
- For 8 out of 65 sites reviewed, snacks were being served after the snack program end date.
- For 1 out of 65 sites reviewed, snacks were being served and reported for reimbursement, even though the district report indicates there was no snack program at the site.

OMB Circular A-133, Subpart C—Auditees, section 300—Auditee Responsibilities, part (b), states:

The auditee shall: 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.

Federal policy, as prescribed through OMB Circular A-133 requires that the recipient of federal funds establish a system of internal control to provide reasonable assurance that it is managing federal funds in compliance with applicable laws and regulations.

Education Department General Administrative Regulations (EDGAR), Section 80.20(b), states:

The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) 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.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities...
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets...
- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data...
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) 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.

Such control weaknesses could have a significant impact on the district's ability to receive both federal and state funding.

This condition has remained constant throughout two of the three prior years' audits and was identified in Findings 04-28 and 03-78.

Recommendation

The district should strengthen controls to ensure that:

- Program officials receive and review budget and expenditure information on a regular basis (no less often than monthly) in order to control budget overruns and prevent unallowable activities from being charged to programs;
- Program officials issue purchase orders prior to accepting and paying for billing invoices to prevent unallowable activities and costs from being charged to programs;
- Records are properly maintained to support program activities and claims;

- Employees who work on federal programs are trained and knowledgeable in all aspects of their respective programs; and
- Accurate and relevant information is communicated to key personnel who use the information.

District's Response

The National School Lunch Program staff has expanded internal controls within the department to enforce the corrective action procedures summarized in Finding 06-27—Internal control deficiencies over federal program expenditure. Additionally, the National School Lunch Program staff is expanding their Point of Sale software installations to 20 more sites to ensure added documentation for reimbursement claims. The National School Lunch Program leadership will monitor monthly Cafeteria Meal Count Summaries and participate in semi-annual internal audit support from State and Federal Compliance staff and the assigned Financial Services Budget Associate. These internal audits will monitor expenditures and ensure that the Department's internal control procedures support the collection of sufficient audit documentation and compliant expenditure approvals.

**FINDING 06-30—
National school lunch
program: discrepancies
in reconciling
reimbursement claims
(30000) (50000)**

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

We noted that reimbursement claims for the district's national school lunch program did not reconcile with supporting documentation for 8 of the 12 months we reviewed. A summary for each month is as follows:

Month 2 (August 2005)	Underclaimed meal counts by 4,831	\$ (7,067)
Month 3 (September 2005)	Overclaimed meal counts by 10,990	10,413
Month 4 (October 2005)	Overclaimed meal counts by 1,082	2,184
Month 5 (November 2005)	Underclaimed meal counts by 1,598	(11,703)
Month 8 (February 2006)	Overclaimed meal counts by 1,384	2,953
Month 9 (March 2006)	Underclaimed meal counts by 1 (net)	(9,776)
Month 10 (April 2006)	Underclaimed meal counts by 3,752	(1,962)
Month 12 (June 2006)	Overclaimed meal counts by 15,185	21,139
Total		<u>\$ 6,181</u>

OMB Circular A-133, Subpart C-Auditees, section 300 Auditee Responsibilities, part (b) states:

The auditee shall: 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.

OMB Circular A-133 Compliance Supplement, Section L3, Special Reporting, (b) Subrecipient Special Reporting, (1) Claiming-General Process, states:

A claim must . . . be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR section 210.7(c), 210.8(c), and 225.9(d)).

Good internal controls and prudent business practices require program managers to review Claims for Reimbursement forms to verify accuracy and maintain an audit trail to support actual meal counts.

This is a partial repeat of prior year Findings 03-73, 04-31, and 05-17.

Recommendation

The district should strengthen internal controls to ensure that:

- Program officials review Claims for Reimbursement before they are submitted to CDE to ensure meal counts are accurate and supported by adequate documentation.
- Procedures are implemented that provide staff training on recording and reporting meal counts.

District's Response

The National School Lunch Program staff is expanding their Point of Sale software installations to 20 more sites to ensure added documentation for reimbursement claims. The National School Lunch Program leadership will monitor and spot check source documents for monthly Cafeteria Meal Count Summaries and participate in semi-annual internal audit support from State and Federal Compliance staff and the assigned Financial Services Budget Associate. These internal audits will monitor the Department's internal control procedures to ensure sufficient audit documentation and compliant reimbursement claims.

**FINDING 06-31—
National school lunch
program: eligibility
verification weaknesses
(30000) (50000)**

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

While reviewing the National School Lunch Program for the Oakland Unified School District, we noted that that the district did not provide:

- An eligibility application for 1 of 20 students selected for testing.
- Eligibility applications for any of the independent study students claimed for free meals. Total questioned cost is \$22,085 (9,438 meals).
- Any records to support the methodology used for selecting its sample of students to verify free, reduce, or paid meal applications.

OMB Circular A-133 Compliance Supplement, Section N, Special Tests and Provisions, requires:

Verification of Free and Reduced Price Applications (NSLP)

SFAs (or State agencies) must select the sample by:

- a. Random sampling (the lesser of three percent or 3000 of the approved applications on file, all randomly selected), or
- b. Focused sampling in which the SFA must verify a sample that is, at a minimum, the sum of:

(1) The lesser of one percent or 1000 of the total number of approved applications (both income and categorical) selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals; and

(2) The lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program, FDIPIR, or TANF case number.

Sources of information for verification include written evidence, collateral contacts, and systems of records, as described in 7 CFR section 245.6a(b).

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

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria . . . :
 - j. Be adequately documented.

Good internal controls require that the district maintain adequate documentation to support eligibility for free or reduced meals.

This is a partial repeat of prior year Finding 03-77.

Recommendation

The district should comply with federal requirements with regards to eligibility verification testing. The district should also strengthen controls by establishing procedures in which upper management reviews income eligibility applications, and require staff to adequately document verification testing.

District's Response

The District disagrees with this finding because the independent study students that participated in the National School Lunch Program were verified by the National School Lunch leadership and complied with the federal requirements with regards to eligibility. The National School Lunch Program staff is expanding their Point of Sale software installations to 20 more sites to ensure added documentation for reimbursement claims. The National School Lunch Program leadership will monitor and spot check source documents to ensure eligibility verification and verify that students enrolled in independent study school programs comply with federal requirements for participating in the National Food Lunch Program. Added monthly spot checks will be conducted on the monthly Cafeteria Meal Count Summaries and supporting documentation. Staff will participate in semi-annual internal audit support from State and Federal Compliance staff and the assigned Financial Services Budget Associate. These internal audits will monitor the Department's internal control procedures to ensure sufficient audit documentation and compliant reimbursement claims.

SCO's Comment

The response does not address why there were no applications for the independent study students who received free lunches. In addition, the response does not explain how management will ensure that all independent study students will comply with the eligibility requirements that are required of all other students.

The response does not sufficiently explain how the National School Lunch leadership verified the independent study students during the 2005-06 fiscal year or what source documents the National School Lunch Program leadership will monitor and spot check in the future to ensure eligibility verification of independent study students.

The finding remains unchanged.

**FINDING 06-32—
NSLP: Insufficient
documentation
(30000) (50000)**

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

While testing meal claims, we noted that the records to support meal reimbursement claims were not properly maintained. For Frick Middle School, weekly food service reports were incomplete for February 2006, and a Cafeteria Meal Count Summary was not provided for the month of March, resulting in total questioned costs of \$31,871.

OMB Circular A-133, Subpart C—Auditees, section 300, Auditee Responsibilities, part (b), states:

The auditee shall: 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.

OMB Circular A-133 Compliance Supplement, Section L3, Special Reporting, (b) Subrecipient Special Reporting, (1) Claiming—General Process, states:

A claim must . . . be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR section 210.7(c), 210.8(c), and 225.9(d)).

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

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria...:
 - j. Be adequately documented.

Good internal controls require that the district maintain adequate documentation to support reimbursement claims.

Recommendation

Program officials should provide oversight to ensure that adequate documentation is retained to support meal counts on the Claim for Reimbursement forms.

District's Response

The National School Lunch Program staff is expanding its program accounting staff to ensure that adequate documentation is retained to support meal counts on the Claim for Reimbursement forms. The District is expanding their Point of Sale software installations to 20 more sites to ensure added documentation for reimbursement claims. The National School Lunch Program leadership will monitor and spot check source documents for monthly Cafeteria Meal Count Summaries and participate in semi-annual internal audit support from State and Federal Compliance staff and the assigned Financial Services Budget Associate. These internal audits will monitor the Department's internal control procedures to ensure sufficient audit documentation and compliant reimbursement claims.

**FINDING 06-33—
Special education: IEP
records not properly
maintained
(30000) (50000)**

In reviewing the district’s federal grant programs, we observed that 14 out of 19 Individualized Education Programs (IEP) for Special Education students were missing one or more of the significant elements required by state and federal regulations. A summary of the exceptions noted is as follows:

**CFDA #84.027
U.S. Department of
Education, California
Department of Education**

Exceptions	Total
IEP not performed annually	1
IEP did not have parent or guardian signature	1
IEP did not state special education-related services	1
No IEP for fiscal year 2005-06	4
Parents not notified about IEP meeting	7
Total IEPs with deficiencies	<u>14</u>

Education Code section 56381(a)(2) states:

A reassessment shall occur not more frequently than once a year, . . . and shall occur at least once every three years, unless the parent and the local educational agency agree, in writing, that a reassessment is unnecessary.

Education Code section 56380(a) states:

Pursuant to subparagraphs (A) and (B) of paragraph (4) of subsection (d) of Section 1414 of Title 20 of the United States Code, the local educational agency shall maintain procedures to ensure that the individualized education program team does both of the following:

- (1) Reviews the pupil’s individualized education program periodically, but not less frequently than annually, to determine whether the annual goals for the pupil are being achieved.
- (2) Revises the individualized education program as appropriate to address, among other matters, the provisions specified in subdivision (d) of Section 56341.1.

Education Code section 56345 states:

(a) The individualized education program is a written statement for each individual with exceptional needs that is developed, reviewed, and revised in accordance with this section, . . . and that includes the following:

- (1)(C)(2) A statement of measurable annual goals, including academic and functional goals, . . .
- (4) A statement of the special education and related services and supplementary aids and services. . . .

Education Code section 56321(c) states:

The local educational agency proposing to conduct an initial assessment to determine if the child qualifies as an individual with exceptional needs shall obtain informed consent from the parent of the child before conducting the assessment, in accordance with Section 1414(a)(1)(D) of Title 20 of the United States Code. If the parent of the child does not provide consent for an initial assessment, or the parent fails to respond to a request to provide the consent, the local educational agency may pursue the initial assessment utilizing the procedures described in Section 1415 of Title 20 of the United States

Code and in accordance with paragraph (3) of subdivision (a) of Section 56501 and subdivision (e) of Section 56506. The parent or guardian shall have at least 15 days from the receipt of the proposed assessment plan to arrive at a decision. The assessment may begin immediately upon receipt of the consent.

Education Code section 56341.5 states, in part:

- (a) Each local educational agency convening a meeting of the individualized education program team shall take steps to ensure that no less than one of the parents or guardians of the individual with exceptional needs are present at each individualized education program meeting or are afforded the opportunity to participate.
- (b) Parents or guardians shall be notified of the individualized education program meeting early enough to ensure an opportunity to attend.
- (c) The individualized education program meeting shall be scheduled at a mutually agreed-upon time and place. The notice of the meeting under subdivision (b) shall indicate the purpose, time, and location of the meeting and who shall be in attendance. Parents or guardians also shall be informed in the notice of the right, pursuant to clause (ii) of paragraph (1) of subsection (b) of Section 300.345 of Title 34 of the Code of Federal Regulations, to bring other people to the meeting who have knowledge or special expertise regarding the individual with exceptional needs.

Education Code section 56343 states:

An individualized education program team shall meet whenever any of the following occurs:

- (a) A pupil has received an initial formal assessment. The team may meet when a pupil receives any subsequent formal assessment.
- (b) The pupil demonstrates a lack of anticipated progress.
- (c) The parent or teacher requests a meeting to develop, review, or revise the individualized education program.
- (d) At least annually, to review the pupil's progress, the individualized education program, including whether the annual goals for the pupils are being achieved, and the appropriateness of placement, and to make any necessary revisions. The individualized education program team conducting the annual review shall consist of those persons specified in subdivision (b) of Section 56341. Other individuals may participate in the annual review if they possess expertise or knowledge essential for the review.

Pursuant to the Federal Grant Award Letter:

The grant shall be administered in accordance with the provisions of the Individuals with Disabilities Education Act (IDEA) and Education Department General Administrative Regulations (EDGAR). Furthermore, expenditures shall comply with all applicable provisions of federal, state and local rules, regulations, and policies related to the administration of, use of, and accounting for public school funds including, but not limited to, the Education Code of the State of California.

Good internal controls require that adequate records be maintained.

This condition has remained constant throughout each of the three prior years' audits and was identified in audit Findings 03-72, 04-30, and 05-16.

Recommendation

The district should comply with Education Code sections 56381(a)(2), 56380(a), 56345, 56321(c), 56341.5, 56343, and federal grant requirements. In addition, the district should strengthen controls so that IEPs are properly maintained, annual reviews are conducted, and notice of meeting forms are sent to parents at least ten days in advance of the proposed IEP meeting date.

District's Response

During Fiscal Year 2006-2007, the Department created a system of annual reviews for all special education students to update their IEPs regularly and send out notice of meeting forms to parents at least 15 days in advance of the proposed assessment date. The Department has created a central location for maintaining IEP folders with one person managing this effort. All special education teachers receive annual training and ongoing monthly check-ins on this process effective the summer of 2007. Parents are asked to write a statement that they refused to sign their child's IEP if the document remains unsigned by the parent. Effective Fiscal Year 2007-2008, the Department is creating a non web-based online IEP documentation system for department coordination and tracking. Special education teachers who fail to comply with federal requirements will be monitored by department supervisors to ensure federal compliance.

**FINDING 06-34—
Title I: Highly
qualified teacher
discrepancies
(30000) (50000)**

**CFDA #84.010, #84.011,
#84.013, #84.048, #84.357
U.S. Department of
Education, California
Department of Education**

In reviewing the district's federal grant programs, we observed five of the eight schools that received Title I funds that did not have highly qualified teachers instructing core academic classes. A summary of sites and questioned costs are as follows:

School	Subject	Title I Funding
Frick Middle	English/History	\$ 349,176
Garfield Elementary	Multi-subject	435,402
La Escuelita Elementary	Multi-subject	134,682
Roberson	Algebra	175,301
Architecture	Mathematics	201,668
Total		<u>\$ 1,296,229</u>

OMB Circular A-133 Compliance Supplement, Section N, Special Tests and Provisions, (6) Highly Qualified Teachers and Paraprofessionals, requires the following:

An LEA must ensure that any teacher who is hired after the first day of the 2002-2003 school year to teach a core academic subject and who works in a program supported with Title I, Part A funds is highly qualified as defined in 34 CFR section 200.56. This requirement applies to teachers in Title I targeted assistance programs who teach a core academic subject and are paid with Title I, Part A funds and to all teachers who teach a core academic subject in a Title I schoolwide program school. All teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, must be highly qualified by the end of the 2005-06 school year.

Good internal controls require that the district ensure that all teachers possess valid credentials.

Recommendation

The district should strengthen internal controls to ensure that existing and newly hired teachers possess a valid credential to instruct classes funded by Title I, Part A funds.

District's Response

Effective Fiscal Year 2006-2007, a pilot system of tracking highly qualified teachers within school site assignments was developed. 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 that 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.
- 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 their subject area.

This process ensures that all District teachers possess valid credentials in their subject areas.

SECTION IV—STATE AWARD FINDINGS**FINDING 06-35—
Variances in the
reconciliation of
reported attendance
and district summaries
(10000) (30000) (40000)**

Our review of ADA reported on the district’s summary reports disclosed discrepancies between the summary reports and the ADA reported to CDE for both the P-2 and Annual Reports of Attendance. A summary of the variances is as follows.

	Per Report of Attendance	Per Audit Calculation	Variance Over/ (Under)	Revenue Limit	Amount Over/ (Under)
2005-06 (P-2):					
K-12 Regular	36,535.29	36,622.37	(87.08)	5,126.18	(446,388)
Independent study	357.26	357.27	(0.01)	5,126.18	(51)
Special education	1,355.69	1,355.89	(0.20)	4,897.50	(980)
2005-06 (Annual):					
K-12 Regular	36,246.23	36,094.68	151.55	5,126.18	776,873
Independent study	310.86	416.95	(106.09)	5,126.18	(543,836)

The variances resulted because the district summary did not reconcile to the P-2 and Annual reports of attendance.

Education Code section 41601 states, in part:

For the purposes of this chapter, the governing board of each school district shall report to the Superintendent of Public Instruction during each fiscal year the average daily attendance of the district for all full school months during . . . (2) the period between July 1 and April 15, inclusive, to be known as the “second period” report for the second principal apportionment.

Pursuant to Section 41601(a), the average daily attendance in the regular elementary, middle, and high schools—including continuation schools and classes, opportunity schools and classes, and special day classes maintained by the school districts—shall be determined by dividing the total number of days of attendance allowed in all full school months in each period by the number of days the schools are actually taught in all full school months in each period, exclusive of Saturdays or Sundays and exclusive of weekend makeup classes, pursuant to Section 37223.

Good internal controls require the district to monitor and review its attendance reporting process in order to reduce the number of inconsistencies and the amount of ADA improperly reported to CDE.

For regular K-12, special education and independent study, apportionment is paid based on attendance reported at P-2. The district underreported P-2 attendance by 87.29 ADA, which equates to \$447,419.

This is a repeat of prior year Findings 04-33 and 05-19.

Recommendation

The district should file an amended P-2 and Annual Report of Attendance. In addition, the district should monitor and review the attendance reporting process to reduce the number of inconsistencies in ADA reported to the CDE.

District's Response

Effective 2007-2008, the District has created several reports to replace manually created excel spreadsheets to verify reported attendance and district summaries. The District has expanded its external training of school site staff to ensure proper attendance accounting recording and reconciliation to minimize the frequency of input error. Financial Services Accountants continue to monitor attendance accounting reporting throughout the school year to ensure proper codes are being utilized to reflect accurate attendance.

The District will file an amended P-2 and Annual Report of Attendance to recoup lost funding.

**FINDING 06-36—
Variances in the
district’s attendance
summaries and school
site summaries
(10000) (30000) (40000)**

None of the 12 school sites’ attendance summaries we reviewed reconciled to the district summary. The district summary reports for months 2, 6, and 7 for Regular K-12, and independent study attendance did not contain any attendance information; however, the missing attendance was usually reported in months 3 and 8, which created large variances in months 2, 3, 6, 7, and 8. We also identified smaller variances in months 1, 4, and 5; however, the missing attendance was reported in later months. Despite these discrepancies, the net variance for all months was zero.

In addition, our review disclosed that the school sites’ attendance summaries for independent study attendance at P-2 did not reconcile to the district summary, as follows.

	<u>ADA Per District Summary</u>	<u>ADA Per School Summary</u>	<u>Variance Over/ (Under)</u>	<u>Base Revenue Limit (BRL)</u>	<u>Amount Over/ (Under)</u>
Independent study: P-2	978.00	1,031.00	(53.00)	\$ 5,126.18	\$ (271,688)

As a result, the district underreported attendance by 53 ADA, which equates to \$271,688 in apportionment funding.

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 require that the district maintain a clear audit trail to support all ADA it reports, in order to ensure that the reported ADA can be traced to supporting documents maintained at the site.

This is a repeat of prior year Findings 04-34 and 05-21.

Recommendation

The district should ensure that it properly maintains attendance records to support its claim. The district should establish procedures to provide school sites with a final cut-off date for submitting corrections to the attendance system. School sites should attach any changes that occur between the last monthly summary and the system report in order to explain any discrepancy between the school site summary and district reports.

District’s Response

Effective 2007-2008, the District has created several reports to replace manually created Excel spreadsheets to verify reported attendance and district summaries. The District has expanded its external training of school site staff to ensure proper attendance accounting recording and reconciliation to minimize the frequency of input error. Financial Services Accountants continue to monitor attendance accounting reporting throughout the school year to ensure proper codes are being utilized to reflect accurate attendance.

The District will file an amended P-2 and Annual Report of Attendance to recoup lost funding.

**FINDING 06-37—
Attendance improperly
reported by district
(10000) (30000)**

In reviewing the school site attendance records, we noted:

- For five of the ten school sites tested, the district did not properly report attendance in its monthly reports, due to either teacher errors or attendance reporting system errors as follows:

<u>School Site</u>	<u>Overreported Attendance Days</u>
Burckhalter	4
Garfield	1
La Escuelita	5
Robeson School Visual & Performing Arts	1
Oakland Technical	<u>1</u>
Total overreported attendance days	<u>12</u>

- For eight of the ten school sites tested, the district did not properly report attendance because absences were included for apportionment purposes as follows:

<u>School Site</u>	<u>Overreported Attendance Days</u>
Burckhalter	6
Crocker Highlands	2
Garfield	4
La Escuelita	3
Frick	1
Robeson School Visual & Performing Arts	1
College Prep & Architecture Academy	10
Oakland Technical	<u>1</u>
Total improperly reported absences	<u>28</u>

A total of 40 attendance days were overreported. This equates to 0.31 ADA and \$1,589 in inappropriately received state funding.

In addition to these attendance recording and reporting errors, we also observed that teachers do not consistently sign the scantrons for their classes' attendance. In the sites we tested for attendance, we noted that scantrons were not signed by the teachers for:

- 3 of 14 reviewed at College Prep & Architecture Academy;
- 7 of 18 reviewed at Robeson School Visual & Performing Arts;
- 24 of 49 reviewed at Frick Middle School; and
- 4 of 32 reviewed at Crocker Highlands Elementary School.

Education Code section 46010 states:

The total days of attendance of a pupil upon the schools and classes maintained by a school district, or schools or classes maintained by the county superintendent of schools during the fiscal year shall be the number of days school was actually taught for not less than the minimum schooldays during the fiscal year less the sum of his or her absences.

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. Teacher scantrons should be signed and reviewed regularly for proper markings.

If the school sites do not take necessary care in recording attendance and in ensuring that the reported attendance is properly supported, errors will be permitted into the attendance accounting system, and the attendance reported by the district will be incorrect.

Recommendation

The district should strengthen internal controls at school sites to make sure teachers are signing their scantrons and attendance staff are properly recording attendance prior to submitting the sites' attendance to the district. The sites should review the monthly attendance reports to ensure that attendance for the site is accurately reflected in the monthly reports. The district should submit a revised report of attendance reflecting the 0.31 ADA overreported for improperly reported attendance.

District's Response

This finding is immaterial and is less than 1 average daily attendance (less than \$5,000). The District has strengthened its internal controls at school sites to ensure that all relevant attendance documents are maintained in an organized manner and are reconciled prior to being reported to the California Department of Education for apportionment purposes.

The District has expanded its external training of school site staff to ensure proper attendance accounting recording and reconciliation to minimize the frequency of input error. Financial Services Accountants continue to monitor attendance accounting reporting throughout the school year to ensure staff at school sites are correctly reporting attendance and enrollment.

SCO's Comment

Section 19816 of the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06 (Audit Guide) addresses internal control issues. The accuracy of attendance reporting is a compliance issue. Section 19817.1(d) regarding attendance reporting in the Audit Guide states that "If any inappropriately reported units of Average Daily Attendance are identified through the foregoing audit procedures, recalculate, consistent with the provisions of Education Code Section 46303, the correct number of units of Average Daily Attendance. Include a statement in the Findings and Recommendations section of the audit report of the number of units of Average Daily Attendance that were inappropriately reported for apportionment and an estimate of their dollar value."

**FINDING 06-38—
Non-compliance with
teachers credentials'
requirements
(30000) (40000) (71000)**

In conjunction with our review of attendance accounting, we identified teachers who did not possess valid credentials or were not adequately credentialed. Our review disclosed that one middle school teacher (at Montera) did not possess a valid credential during the entire 2005-06 school year. Also, a middle school teacher (at Frick) and an elementary school teacher (at Burckhalter) possessed only valid credentials for a portion of the 2005-06 school year.

Education Code section 45037 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 further states that the penalty is calculated by dividing the number of school days during which the person did not have a valid certification document by the total number of school days during which the person rendered any amount of service. This amount is then multiplied by the school district's revenue limit entitlement.

As a result, the penalty associated with the three teachers amounts to \$10,907.

In addition, our review disclosed that 14 teachers were not credentialed to teach classes with 20% or more English learners.

Education Code section 44256 states that authorization for teaching credentials shall be of four basic kinds: single subject instruction, multiple subject instruction, specialist instruction, and designated subjects.

Regarding the knowledge of subject matter and teaching assignments, Education Code section 44258.3 states:

(a) The governing board of a school district may assign the holder of a credential, other than an emergency permit, to teach any subjects in departmentalized classes in kindergarten or any of grades 1 to 12, inclusive, provided that the governing board verifies, prior to making the assignment, that the teacher has adequate knowledge of each subject to be taught and the teacher consents to that assignment. The governing board shall adopt policies and procedures for the purpose of verifying the adequacy of subject knowledge on the part of each of those teachers. The governing board shall involve subject matter specialists in the subjects commonly taught in the district in the development and implementation of the policies and procedures, and shall include in those policies and procedures both of the following:

(1) One or more of the following ways to assess subject matter competence:

- (A) Observation by subject matter specialists, as defined in subdivision (d).
- (B) Oral interviews.
- (C) Demonstration lessons.

- (D) Presentation of curricular portfolios.
 - (E) Written examinations.
- (2) Specific criteria and standards for verifying adequacy of subject matter knowledge using any of the methods in paragraph (1). The criteria shall include, but need not be limited to, evidence of the candidate's knowledge of the subject matter to be taught, including demonstrated knowledge of the curriculum framework for the subject to be taught and the specific content of the course of study in the school district for the subject, at the grade level to be taught. . . .
- (b) Teaching assignments made pursuant to this section shall be valid only in that school district. The principal of the school, or other appropriate administrator, shall notify the exclusive representative of the certificated employees for that school district, as provided under Chapter 10.7 (commencing with Section 3540) of Division 4 of Title 1 of the Government Code, of each instance in which a teacher is assigned to teach classes pursuant to this section. Any school district policy or procedures adopted and teaching assignments made pursuant to this section shall be included in the report required by subdivisions (a) and (e) of Section 44258.9. The Commission on Teacher Credentialing may suspend the authority of a school district to use the teaching assignment option authorized by this section upon a finding that the school district has violated the provisions of this section.
 - (c) Nothing in this section shall be construed to alter the effect of Section 44955 with regard to the reduction by a school district governing board of the number of certificated employees.
 - (d) For the purposes of this section, "subject matter specialists" are mentor teachers, curriculum specialists, resource teachers, classroom teachers certified to teach a subject, staff to regional subject matter projects or curriculum institutes, or college faculty.

Regarding the assignment of teachers to a single subject class, Education Code section 44263 states:

A teacher licensed pursuant to the provisions of this article may be assigned, with his or her consent, to teach any single subject class in which he or she has 18 semester hours of coursework or nine semester hours of upper division or graduate coursework or a multiple subject class if he or she holds at least 60 semester hours equally distributed among the four areas of a diversified major set forth in Section 44314. A three-semester-unit variance in any of the required four areas may be allowed. The governing board of the school district by resolution shall provide specific authorization for such assignment. The authorization of the governing board shall remain valid for one year and may be renewed annually.

Many additional Education Code criteria may apply in various capacities to the district's instructional staff. District management should be knowledgeable of the various capacities in which its instructional staff may be employed and should ensure that its staff is properly assigned. Although there are no penalties associated with mis-assignments, resources are not effectively used when teaching staff members are not employed in positions for which they are best suited or are not properly credentialed to teach.

Recommendation

District management should:

- Pay the State the penalty amount of \$10,907 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;
- Ensure that staff providing instruction to English learners is qualified and authorized to do so; and
- Establish a system for the periodic review of teacher credential qualifications and assignments.

District's Response

Effective Fiscal Year 2006-2007, a pilot system of tracking highly qualified teachers within school site assignments was developed. 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 that 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.
- 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 their subject area.

This process ensures that all District teachers possess valid credentials in their subject areas.

**FINDING 06-39—
Kindergarten
continuation forms
not provided
(10000) (40000)**

For the five elementary schools reviewed, we compared the names of students who were enrolled in kindergarten in fiscal year 2004-05 to students who were enrolled in fiscal year 2005-06; we presumed that students whose names appeared on both lists were continued. We reviewed nine student files and noted that two students, both from Garfield Elementary, were continued as kindergarten students in fiscal year 2005-06, but the district could not locate or provide a continuation form for these students. The disallowed ADA at P-2 for these students amounts to 1.08 ADA.

This deficiency equates to \$5,536 (1.08 ADA × \$5,126.18 revenue limit) in state funding.

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:

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 05-23.

Recommendation:

The district should:

- Submit a revised report of attendance at P-2 for the disallowed ADA;
- Repay the State the amount of \$5,536 for the disallowed ADA;
- Implement a district-wide system to ascertain which pupils have been recommended for continuation in kindergarten. Determine in a timely manner if the proper continuation form for those pupils has been completed so that the district may legitimately claim the ADA for those pupils attendance in the second year of kindergarten;
- Contact the California Department of Education for additional resources and assistance in implementing corrective measures, as this has been an ongoing problematic area for the district in each of the prior three years' audits.

District's Response

The District has continued to correct deficiencies in the District's use of the proper Kindergarten continuation forms. The District has notified all Principals to use the appropriate form located on the California Department of Education's website and available for download completion. This link has been emailed to Network Officer and Principals for follow-up use.

**FINDING 06-40—
Independent study
attendance records,
agreements and work
samples deficient or not
provided
(10000) (30000) (40000)**

Our reconciliation of the district's monthly attendance reports to the P-2 report disclosed that the district overreported .01 ADA for grades 9-12, which equates to \$51.26 in state funding.

In addition, our review of independent study ADA reported by the school sites tested disclosed the following exceptions.

Burckhalter Elementary: We disallowed all 77 days claimed because:

- For all three students claimed, the school site provided no independent study agreements or work samples.
- Our comparison of the monthly attendance reports to the teacher scantrons disclosed that attendance was underreported by one day for Month 3 and overreported by three days for Month 8.

Garfield Elementary: We disallowed all 18 days claimed because:

- For the one student claimed, all days reported were outside of the terms of the agreement. In addition, the agreement did not state the manner, time, and frequency of work to be submitted.
- The school site provided no work samples or lesson plans for the one student claimed.
- The school site provided no teacher scantrons or registers.

La Escuelita Elementary: We disallowed all 170 days claimed because:

- The school site provided no documentation, including teacher scantrons, agreements, or work samples, for the 170 days reported by the school site.

Carl Munck Elementary: We disallowed all 19 days claimed because:

- The school site provided no scantrons or teacher registers for the one student claimed.
- Student work samples did not contain the teacher's signature, initial or date.

Frick Middle School: We disallowed all 584 days claimed because:

- No scantrons or teacher registers were provided for the eight students tested.
- No independent study agreements were provided for four of the eight students tested.
- For the four students with independent study agreements, three were not signed by a teacher, and the fourth student had three agreements, but two were not signed by a teacher.
- For all eight students tested, no work samples were provided.

Oakland Technical High School: We disallowed all 11 days claimed because:

- The school site provided no documentation, including teacher scantrons, agreements or work samples for the one student claimed.

Sojourner Truth Independent Study: We disallowed 236 of 944 days claimed because:

- Five of 19 students tested had incomplete independent study agreements; (e.g. missing signatures, dates, no listing of courses or credits to be completed during the term of the agreement).
- No work samples were provided for two students.
- For one student, 20 days were claimed after the end of the agreement term.
- For one student tested, six days reported on the monthly register did not appear on the teacher scantrons.
- Our comparison of the monthly attendance reports to the teacher scantrons disclosed that attendance was underreported by 36 days for month 3 and by 23 days for month 8.

As a result of the exceptions noted at the school sites tested, 1,115 days, or 8.08 ADA, are disallowed; this equates to \$41,792 in state funding.

CCR, Title 5, 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.

CCR, Title 5, 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 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 51747.5(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.

Good internal controls require that the district maintain complete and accurate records.

This is a repeat or partial repeat of prior year Findings 05-24, 04-40, and 03-96.

Recommendation

The district should submit a revised Report of Attendance reflecting the 8.09 ADA disallowed. In addition, the district should ensure that it maintains complete and accurate records of independent study.

District's Response

In the 2007-2008 Fiscal Year, the District created a new online training module for principals and school site staff to review in how to create compliant independent study documentation at school sites. Network Officers have been informed about this new training tool and asked to monitor school sites in their use of this compliant process. State and Federal Compliance staff will conduct spot checks during the 2008-2009 Fiscal Year to ensure added compliance.

**FINDING 06-41—
Deficiencies in
attendance recording
and reporting; scope
limitation in testing
Continuation
Education
(10000) (40000)**

Our attendance testing disclosed the following deficiencies:

- Attendance was incorrectly reported for one out of 20 students tested. As a result, attendance was overreported by one day.
- The Aeries system does not credit attendance hours in increments indicated by the bell schedule. The system credits one hour of attendance regardless of the class session minutes as shown on the bell schedule. For example, on Wednesday, which is a minimum day, students were credited for 5 hours of attendance when, in fact, they attended only 3.5 hours. 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 carryback hours may have had; any effect would be immaterial.

In addition, we were unable to fully perform the audit procedures in the K-12 Audit Guide—CCR, Title 5, Section 19820(f)(1)-(3)—because district staff would not provide written confirmation as to whether it had continuation-education pupils enrolled in work experience education. These audit procedures require that we select a representative sample continuation-education pupils enrolled in work experience education to verify attendance and compliance with certain program requirements.

Because the district would not respond to our request, we will include a scope limitation in the Report on State Compliance.

Recommendation

The district should:

- Ensure that the Aeries system is crediting attendance hours in increments, as indicated by the bell schedule.
- Provide written confirmation to the auditors, upon request, to support its statement that it did not have any continuation pupils enrolled in work experience education.

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 hourly attendance report can compute hourly attendance correctly for Wednesdays at Dewey when the print hour attendance report/continuation option is used to generate the report totals.

It was confirmed from the Dewey site as well as the School to Career Office that the documentation on continuation students work experience verification was never requested for specific students. Dewey High School uses a Work Verification Form that is signed by the student's supervisor at work prior to issuing work experience credit. The District uses a different form (Work-Site Learning Agreement) for students participating in job intern placements through the School-to-Career Partnership. Effective Fiscal Year 2007-2008, Dewey has adopted the Work-Site Learning Agreement for students at their site doing outside work experience to increase student accountability.

SCO's Comment

In June 2007, SCO audit staff made both email and phone requests of Dewey attendance staff to confirm whether there were any continuation pupils enrolled in work experience education during the 2005-06 school year. Dewey's attendance clerk and principal did not respond to the auditor's requests for this information. The Dewey site and School to Career Office should maintain sufficient documentation to enable it to report upon continuation students enrolled in work experience education.

**FINDING 06-42—
Adult Education
program attendance
reporting deficiencies
and program
non-compliance
(10000) (30000) (40000)**

Our review of adult education disclosed the following deficiencies in attendance reporting and program compliance.

Attendance Reporting

- The monthly attendance totals for seven out of ten teachers tested did not agree with district's hourly attendance reports. This resulted in an understatement of 50.50 attendance hours, or .010 ADA, which equates to \$229.84 in state funding.
- Five of 64 scantrons reviewed were not signed by the teacher to certify attendance.

Program Noncompliance for Concurrently Enrolled Students

Our review of ten concurrent students' enrollment applications and agreements disclosed that:

- One concurrent student's application did not provide a reason for the student's enrollment in adult education and was not signed by the parent/guardian. In addition, the course description was unclear, and we could not determine whether the course supplemented and enriched or supplanted regular course offerings. As a result, the district inappropriately reported .13 ADA, which equates to \$313 in state funding.

Education Code section 52523 states:

Adult education programs, courses, and classes shall not be used to supplant the regular high school curriculum for high school pupils enrolled in adult education. Adult education shall supplement and enrich the high school pupil's educational experiences.

- Two of the students' agreements were approved by the adult school coordinator after the students enrolled in their courses. As a result, this district inappropriately claimed 3 hours of attendance, or .01 ADA, which equates to \$24.

This is a repeat of prior year Findings 05-26 and 05-28.

Recommendation

The district should:

- Implement policies and procedures ensuring that attendance data is reported on a timely and consistent basis and in accordance with CDE instructions.
- Require that all attendance forms be signed and dated by the classroom teacher or instructional aide (district employee), to indicate that the information was reviewed and determined to be accurate.

- Review the applications and agreements for concurrently enrolled students to ensure that they are complete and signed by the appropriate persons before the students are enrolled in the adult education program.

District's Response

Adult Education Department has written policies and procedures for Student Attendance Reports. Written procedures are in place for classes scheduled for full hour and for classes scheduled for full hour and a half hour.

It is written in the attendance procedures . . . “Teachers are to sign and date each page of your attendance sheets in ink. By signing your name (teacher), you are certifying the hours marked are an accurate record of student attendance.” An auditor can disallow the attendance claimed on any attendance sheet without a signature. . . .

Adult Education Department has written instruction for their staff regarding the registration of Concurrent and Exempt Students. (attachment).

Documents supporting these procedures are available upon your request.

**FINDING 06-43—
Insufficient grade 4-5
instructional minutes
(30000) (40000)**

Our review of the district’s instructional minutes for grades 4 and 5 disclosed that its instructional minute offering was deficient as follows:

<u>Grade Level</u>	<u>School Site</u>	<u>Actual Minutes</u>	<u>Required Minutes</u>	<u>Deficient Minutes</u>
Grade 4-5	Brookfield	53,550	54,000	450
Grade 4-5	Marshall	53,850	54,000	150

These deficiencies occurred because of errors made in calculating instructional time.

Education Code section 46201(a)(3) requires that in the 1986-87 fiscal year:

... schools offer at least 54,000 minutes of instruction in grades 4-8 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 at that grade level that the district failed to offer.

The district did not meet the instructional minutes requirements for grades 4 and 5. Therefore, a penalty assessment will be applied as follows:

Minutes Penalty Calculation for Grades 4-5

<u>ADA</u>	<u>Base Revenue Limit</u>	<u>Deficit Factor</u>	<u>Apportionment</u>
6,168.47	5,172.32	0.99108	\$31,620,705
	<u>Number of Minutes Short</u>	<u>Required Minutes</u>	<u>Percentage</u>
	450	54,000	0.83%
	<u>Apportionment</u>	<u>Percentage</u>	<u>Penalty</u>
	\$31,620,705	0.83%	\$262,452

The penalty for not meeting the instructional time requirement is \$262,452. The penalty was calculated on the attendance reported for grades 4 and 5.

This is a repeat of prior year Finding 05-30.

Recommendation

The district should pay the State \$262,452 for not meeting the instructional time requirement for all grades 4 and 5 during fiscal year 2005-06. The district should ensure that instructional minute calculations are performed correctly.

District's Response

The District concurs with this finding of 450 deficient minutes reported for Brookfield School (Grades 4-5).

Effective Fiscal Year 2006-2007, Technology Services created a web-based bell schedule tool to assist school site administrators to develop schedules which meet the minimum minutes required by the California Education Code. Fiscal Services and Technology Services continue to train and support site administrators in the use of the bell scheduling tool and monitor bell schedules to ensure that all schedules meet State minimum requirements.

**FINDING 06-44—
Non-compliance with
and errors in funding
claim for program to
reduce class size in two
courses in grade 9¹
(30000) (40000)**

In reviewing the program to reduce class size in two courses in grade 9 (Morgan-Hart), we noted deficiencies in both the claim data supporting the program's funding and in the testing results of individual classes participating in the program.

Fifteen classes that were included in the Morgan Hart funding claim were ineligible for program participation because they were special education classes. These classes were held at Architecture Academy, Bunche Academy, Business Entrepreneurial School of Technology, Castlemont Business and Information Technology School, East Oakland Community High, Oakland High School, Oakland Technical High School, and Skyline High School. In addition, two of these 15 classes (one class at Architecture Academy and one class at Castlemont Business and Information Technology School) were also ineligible because they did not include any 9th-grade students. As a result, the full year equivalent enrollment (FYEE) was overstated by 117.13, which equates to \$22,489 (117.13 FYEE × \$192) in state funding.

Also, two teachers—one at Architecture Academy and one at Oakland Technical High School—did not have a valid teaching credential during 2005-06; therefore we have disallowed the FYEE of 21.95 associated with these two teachers' classes, which equates to \$4,214 (21.95 FYEE × \$192) in state funding.

In testing the FYEE calculations for individual classes, we noted both calculation errors and missing documents, resulting in unsupported FYEE calculations at Architecture Academy, Oakland Technical High School, and Robeson High School. At Oakland Technical High School, staff was unable to locate six weeks of attendance scantrons to support the FYEE calculation for six classes. Because the district could not provide records to support its 12.61 FYEE calculation for the six classes, we could not determine if these classes were eligible for the class size reduction funding. Furthermore, Oakland Technical High School did not include the active monthly enrollment amounts for each month that a class was implemented causing the average active monthly enrollment figures to be overstated. In addition, two classes at Architecture Academy and two classes at Robeson High School were under-claimed by 1.40 FYEE as a result of calculation and rounding errors. As a result, the net FYEE overstatement due to calculation errors and missing documents is 11.21, which equates to \$2,152 (11.21 FYEE × \$192) in state funding.

Education Code section 52084(d) states, in part:

For purposes of this subdivision, the enrollment figure shall exclude both of the following:

- (1) The number of special education pupils enrolled in special day classes on a full-time basis....

¹ See page 72 for Schedule of Noncompliant Classes

Education Code section 44256 states, in part:

Authorization for teaching credentials shall be of four basic kinds, as defined below:

(a) "Single Subject instruction" means the practice of assignment of teachers and students to specified subject matter courses as is commonly practiced in California high schools . . . shall be eligible to have this subject appear on the credential as an authorization to teach this subject.

The instructions for completing the Form J-9 MH-A, Report of Enrollment for fiscal year 2005-06, and those listed on the California Department of Education's Web site (www.cde.ca.gov) state:

3. Divide the sum of the "active monthly enrollment" for each class by the number of months that class was implemented. The result is the average active monthly enrollment for that participating class for the fiscal year. . . .

For a class that was implemented at the beginning of the school year until the end of the school year, the FYEE = $180/180$ (Average Monthly Enrollment for the year) = Average Enrollment

Because the district (1) inappropriately included in its grade 9 class-size reduction funding claim classes for special education students; (2) teachers who did not have valid teaching credentials; (3) did not include the active monthly enrollment amounts for each month the class was implemented (to determine the average active monthly enrollment for each class); and (4) did not provide six weeks of attendance scantrons, the FYEE is overstated by 150.29, which equates to \$28,856 in state funding.

Recommendation

The district should submit a revised Form J-9 MH-A, Report of Enrollment for 2005-06 to the California Department of Education and repay the State the amount of \$28,856 for the amount over-claimed.

To ensure the validity and accuracy of future J-9 MH-A forms completed, the district should:

- Review the classes included in the claim form to ensure that they do not include special education classes;
- Ensure that the classes are 9th grade courses;
- Include only classes for which the teacher possesses a valid teaching credential;
- Retain documentation in support of students' attendance; and
- Ensure that the average monthly enrollment and full year equivalent enrollment calculations are correctly made.
- Have someone not involved in the preparation of the form, review it for validity of the included data and for the accuracy of the calculations.

District's Response

Effective 2008-2009, The Financial Services staff will coordinate efforts with Human Resources and Technology Services to verify that all classes claimed are 9th grade classes that qualify for this program and staffed with teachers with valid teaching credentials. The Financial Services staff will verify that the average monthly enrollment and full year equivalent enrollment calculations are correctly made and reviewed for validity accuracy.

**FINDING 06-45—
Non-compliance with
instructional
material program
requirements
(40000) (70000)**

Our review of the district’s Instructional Materials Funding Realignment Program (IMFRP) disclosed that the board held a public hearing regarding the sufficiency of textbooks and instructional materials, but the date and time of the hearing did not comply with Education Code requirements.

- The public hearing was held nine weeks and three days from the first day pupils attended school. Education Code section 60119(a)(1)(B) requires that the public hearing take place on or before the end of the eighth week from the first day pupils attend school that year.
- The public hearing was held at 2 p.m., which is during school hours. Education Code section 60119(b) requires that hearings be held at times that will encourage the attendance by teachers, parents, and guardians of pupils who attend the schools in the district, and that they not take place during or immediately after school hours.

In addition, the district did not provide evidence that the governing board provided to classroom teachers and public the information required by Education Code section 60119(2)(A) regarding insufficient materials. Section 60119(2)(A) states:

If the governing board determines that there are insufficient textbooks or instructional materials, or both, the governing board shall provide information to classroom teachers and to the public setting forth, in the resolution, for each school in which an insufficiency exists, the percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area and the reasons that each pupil does not have sufficient textbooks or instructional materials, or both, and take any action, except an action that would require reimbursement by the Commission on State Mandates, to ensure that each pupil has sufficient textbooks or instructional materials, or both, within two months of the beginning of the school year in which the determination is made.

Board resolution 0506-0031 stated “Whereas, information was provided in the public hearing and in the attachment to this resolution to describe the specific schools with insufficient materials, the reasons for such insufficiencies, and the actions taken to address those insufficiencies.” However, the district did not provide us with a copy of the attachment to review. Therefore, we were unable to determine whether the attachment contained the information required by Education Code section 60119(2)(A).

As the district failed to comply with Education Code sections 60119(a)(1)(B), 60119(b), and 60119(2)(A), it is not eligible to receive the IMFRP allowance (Education Code section 60119 (a)). Therefore, the \$2,635,109 allowance that the district received is disallowed.

Recommendation

To be eligible to receive instructional material funds, the district should:

- Comply with all provisions of Education Code section 60119;
- Maintain and provide to the auditors, upon request, documents supporting its compliance with state program requirements; and
- Repay the \$2,635,109 for the IMFRP funds received.

District's Response

The OUSD State Administrator/Governing Board approved Instructional Materials for the School Years 2003-2004 and 2004-2005 and 2005-2006. The District was awarded a waiver for the 2002-2003 Fiscal Year with the State Board of Education. The District will file a second waiver with the Alameda County Office of Education for the 2004-2005 and 2005-2006 Fiscal Years.

As part of its corrective action, the public hearing was held within the first eight weeks of school as required by statute and was held at the regular evening meeting of the OUSD governing board for the 2006-2007 and 2007-2008 Fiscal Years. Public notice was also provided ten days in advance of both hearings in 2006-2007 and 2007-2008.

**FINDING 06-46—
Scope limitation in
testing IMFRP
expenditures; no
evidence provided that
the governing board
adopted grades 9-12
instructional
materials listing
(30000) (40000) (70000)**

We were unable to fully perform the audit procedures in the K-12 Audit Guide—CCR Title 5, sections 19828.1(e)(3) and (e)(4)—because the district would not separately identify all expenditures related to K-8 instructional materials and 9-12 instructional materials. These audit procedures require that we select separate samples for K-8 and 9-12 expenditures because the compliance requirements differ.

In its Instructional Materials Reform Program Frequently Asked Questions, the California Department of Education advises:

Expenditures for materials Kindergarten through grade eight should be separated from expenditures for grades nine through twelve materials for auditing purposes because they have different requirements for adoption and purchase.

This exception was also reported in the fiscal year 2003-04 (Finding 04-57) and fiscal year 2004-05 (Finding 05-32) audits. However, the district has not taken any corrective action regarding this issue.

In addition, the district did not provide any evidence to demonstrate that the state administrator or advisory board adopted a list of instructional materials for grades 9-12. The only document the district provided was an invoice showing some of its 9-12 instructional materials. This exception was also reported in prior year Finding 05-32.

Education Code section 60400 states:

The governing board of each school district maintaining one or more high schools shall adopt instructional materials for use in the high schools under its control. Only instruction materials of those publishers who comply with the requirements of Article 3 (commencing with Section 60040) of Chapter 1 of this part and of Section 60226 may be adopted by the board.

Our review of five expenditure transactions—three purchases and two journal entries—totaling \$629,770 disclosed exceptions amounting to \$239,520 as follows:

- The district paid Pearson Education \$219,019.26 for ISBN/Material #0-13-129977-8, which was not on the list of the State Board of Education's adopted texts. The vendor invoice did not contain an adequate description of the merchandise. The purchase order was not included in the documentation provided to us. The documentation did not include any evidence that the expenditure was approved by the program manager.
- \$8,372 was moved from resource 7090, Economic Impact Aid, and charged to resource 7158, Instructional Materials. Resource 7090 is a state categorical program contained in the Consolidated Application that is to be used to support (1) additional services for English learners and (2) services for educationally disadvantaged students. Because the district used the journal entry to move funds, we are

unable to determine whether the Economic Impact Aid funds were expended in compliance with program requirements or were distributed as reported on the Consolidated Application.

- \$308 was moved from resource 7158, Instructional Materials–Williams Case, and charged to resource 7156, Instructional Materials. The funds from resource 7158 are to be apportioned in equal amounts per student enrolled in schools that are ranked in decile 1 or decile 2 of the Academic Performance Index. Because the district used the journal entry to move funds, we are unable to determine if the Instructional Materials–Williams Case funds were distributed in compliance with program requirements.
- Documents provided by the district did not adequately support \$11,821 paid to Delta Education. The documentation consisted of a check, #345873, for a total amount of \$48,816, and two invoices that totaled \$30,581 (invoice #727375 for \$9,448.20 and invoice #719400 for \$20,632.71). We are unable to determine the allocation of the \$11,821 from the documentation provided.

These exceptions are already included in the disallowed amount reported in Finding 06-46.

District program managers either lack sufficient knowledge of program requirements or are unwilling to provide to us the documentation and information to support the district's compliance with IMFRP requirements. We will include a scope limitation in the Report on State Compliance because we were unable to fully perform the required audit procedures for testing Instructional Materials.

Recommendation

The district should:

- Work with the CDE to determine how it can take corrective action to comply with all IMFRP requirements for FY 2005-06 and in future years; and
- Maintain and provide to the auditors, upon request, documents supporting its compliance with state program requirements.

District's Response

The OUSD State Administrator/Governing Board approved Instructional Materials for the School Years 2003-2004 and 2004-2005 and 2005-2006. The District was awarded a waiver for the 2002-2003 Fiscal Year with the State Board of Education. The District will file a second waiver with the Alameda County Office of Education for the 2004-2005 and 2005-2006 Fiscal Years.

Per a review of the expenditure transaction issues:

- \$219,019 was paid to Pearson Education for ISBN/Material #0-13-129977-8 which was not on the list of State Board of Education's adopted texts. Pearson Publishers owns Prentice Hall. The book was first listed as a Prentice Hall book and was approved by the OUSD State Administrator as a Prentice Hall book. Billing was by Pearson and Pearson did not appear on the State Approved List. The text tile, **The Modern World**, did appear on the State Approved List and is the text that was approved by the OUSD State Administrator/Governing Board on June 21, 2006
- The manager of the program was no longer working in the district when the audit was conducted. She was unable to provide documentation.

As part of its corrective action for Fiscal Year 2007-2008, the District is providing program staff the necessary training to maintain compliance with program requirements. Additionally, the Financial Services Budget Director is creating separate program SACS coding to ensure that instructional material expenditures for K-8 and 9-12 are properly tracked and separately recorded.

SCO's Comment

The invoice payment to Pearson Education was for a K-8 textbook. K-8 textbooks are required to be adopted and approved by the State Board. During the course of the audit, management was unable to identify and did not provide sufficient information so that it could be identified as a text that was included in the state approved list of instructional materials.

**FINDING 06-47—
Certain categories of
employees
inappropriately
included in ratio of
administrative
employees to teachers
(30000) (40000)**

Our review disclosed that the district inappropriately included all teachers in its ratio calculation without regard to whether the teachers were classroom-based or non-classroom based. The positions that were incorrectly included in the ratio calculation are as follows:

- TCHR K12S, Substitute Teacher—Substitute teacher was included in calculation although regularly assigned teacher was already included.
- TCHR IF 10, Instructional Facilitator Teacher 10 Months—Position is not in classroom and does not work with students, acts as teachers’ trainer.
- TCHR IF 12, Instructional Facilitator Teacher 12 Months—Position is not in classroom and does not work with students, acts as teachers’ trainer.
- TCHR TSA 10, On Special Assignment Teacher 10 Months—Position is not in classroom and does not work with students.
- TCHR TSA 12, On Special Assignment Teacher 12 Months—Position is not in classroom and does not work with students.

Education Code section 41401(d) states:

“Teacher” means an employee of a school district, employed in a position requiring certification qualifications, whose duties require him or her to provide direct instruction to pupils in the schools of that district for the full time for which he or she is employed. “Teacher” includes, but is not limited to, teachers of special classes, teachers of exceptional children, teachers of pupils with physical disabilities, teachers of mentally retarded minors, substitute teachers, instructional television teachers, specialist mathematics teachers, specialist reading teachers, home and hospital teachers, and learning disability group teachers. Instructional preparation time shall be counted as part of the teacher full-time equivalent, including, but not limited to, mentor teacher or department chairperson time.

Education Code section 41402 requires that there be no more than eight administrative employees for each 100 teachers in a unified school district.

Although the district performed the calculation incorrectly, compliance with the ratio requirement was not an issue. We recalculated the ratio excluding the teacher classifications that were incorrectly included and found that the district was in compliance with Education Code section 41402.

As the district made errors in preparing the calculation (in both the current and prior years), it could inadvertently exceed the ratio limit.

This is a repeat of prior year Finding 05-34.

Recommendation

The district should:

- Comply with Education Code requirements in calculating its administrative-employee-to-teacher ratio;
- Ensure that the positions used in the calculation are properly included;
- Review the calculation, including the supporting documentation used to determine the ratio; and
- Contact the California Department of Education for additional resources and assistance in preparing and reviewing the ratio calculation, as this has been an ongoing finding for the district.

District's Response

Although the District is in compliance with the ratio, the District staff acknowledges that they may have inappropriately included some instructional positions in the ratio calculation due to lack of specificity in the instructions for the calculation. The District staff, in good faith, followed the instructions that were provided by CDE. The District will take corrective action for Fiscal Year 2007-2008 to ensure an accurate calculation and will make every attempt to exclude the identified instructional positions from the ratio per this recommendation.

**Finding 06-48—
Inaccurate data used
in Gann limit
calculation
(30000) (40000)**

The district's Gann limit calculation is based on incorrect data, affecting the appropriations subject to limit. The district revised the ADA amount but did not update and revise the 2004-05 form used in the current year's calculation. The revision to the ADA affects the appropriations limit. As the district did not use the revised ADA amounts to revise the prior year's GANN limit calculation, the appropriations amount is understated by \$1,802,186. These errors are similar to errors that we noted in the three prior year audits. It appears that district management does not exercise the diligence required to prevent the repetition of such calculation errors.

The K-12 Audit Guide requires the auditor to verify that the data used by the district is accurate, by ensuring that the "Prior Year Gann ADA" used by the district matches the data on the prior year's appropriations limit calculation previously submitted to the CDE. If the district has revised the data, the auditor is to verify that the district has recalculated the prior appropriations limit and attach a copy of the recalculation to the current year appropriations limit.

Good internal controls require that the district exercise diligence in ensuring that the Gann limit calculation, when made, is accurate, and that all amounts can be supported with appropriate documentation.

This is a repeat of prior year Finding 05-35.

Recommendation

The district should:

- Implement procedures to ensure that it completes its Gann limit calculation using correct data and that it completes all components of the calculation in a timely manner.
- Ensure that each of the amounts reported on the calculation form is supported and is available for audit;
- Consider assigning two staff members to the Gann limit calculation project—one staff member to prepare the calculation and another staff member to review it;
- Submit the revised calculations to the CDE and to the Alameda County Office of Education. A copy of each year's recalculation should also be attached to the subsequent year's calculation (including supporting documents); and
- Contact the CDE for additional resources and assistance in implementing corrective action, as this has been an ongoing finding for the district in each of the prior three years' audits.

District's Response

The District will review the finding and take corrective action to ensure that future reports are compliant.

**FINDING 06-49—
Commingling of school
construction bond
proceeds and project
expenditure tracking
deficiencies; scope
limitation in testing
school construction
funds
(30000) (60000)**

Our review of the school bond construction fund expenditures disclosed that 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. During fiscal year 2005-06, the district received the proceeds from an additional \$141 million issuance (as part of existing bond measure A) and commingled these funds with existing, previously issued bond fund proceeds.

In addition, the expenditure of the bond proceeds was not separately assigned to a bond measure or the new series issuance. Because the district did not track expenditures to existing bond measures or series issuances, we cannot determine whether the expenditures incurred are permissible. We are unable to identify what bond proceeds the district used.

In the fiscal year 2002-03 audit report (Finding 03-62), we discussed the issue of commingled bond proceeds and the district responded that it would record future bond issuances in compliance with the California School Accounting Manual (CSAM). Consequently, the district should have identified the proceeds of the \$141 million as a separate issuance by uniquely coding these funds.

In addition, the district has not charged bond issuance costs to the correct Standardized Account Code Structure (SACS) account code by resource and function. Bond issuance costs of \$1,891,830 were incorrectly charged to resource code 0000 for unrestricted resources and to function 8500 for facilities acquisition and construction in Fund 21 (Building Fund). The district should have charged resource code 9010 for other local resources, and function code 9100 for Debt Services in Fund 21.

Education Code section 15358 (b) states, in part:

The proceeds of the sale of bonds . . . deposited shall be drawn out as necessary to finance the purposes approved by the voters pursuant to this chapter. The bond proceeds withdrawn shall not be applied to any other purposes than those for which the bonds were issued. . . .

Education Code section 15264(c) and (d) states:

(c) The members of the oversight committees appointed pursuant to this chapter promptly alert the public to any waste or improper expenditure of school construction bond money.

(d) That unauthorized expenditures of school construction bond revenues are vigorously investigated, prosecuted, and that the courts act swiftly to restrain any improper expenditures.

Education Code section 15288 states, in part:

. . . upon receipt of allegations of waste or misuse of bond funds authorized in this chapter, appropriate law enforcement officials shall expeditiously pursue the investigation and prosecution of any violation of law associated with the expenditure of those funds. CSAM Procedure 705 states “General Obligation Bonds shows that bond issuance costs should be charged in the building fund (fund 21) to resource code 9010 for other local resources and to function code 9100 for debt service.”

The district cannot provide assurance that its expenditures are appropriate or allowable, or that they were properly allocated, under the restrictions of individual bond measures or series issuances.

We were unable to fully perform the audit procedures in the K-12 Audit Guide—CCR, Title 5, section 19832(a)(2)—because district staff did not identify the proceeds of the \$141 million as a separate issuance by uniquely coding these funds. The audit procedure requires that we 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. As a result, we will include a scope limitation in the Report on State Compliance.

Legal consequences may result from the commingling of bond proceeds and expenditures that result in the misuse of bond funds and are prosecutable pursuant to Education Code section 15288.

The district's incorrect accounting of bond issuance costs has resulted in its overstatement of bond costs and the understatement of debt service costs.

This is a partial repeat of prior year Finding 03-62.

Recommendation:

The district should:

- Separate bond balances by bond measure and series issuance;
- Maintain separate accounts or use subsidiary accounts to identify and track proceeds and expenditures for bond measures and series issuances to avoid inappropriate expenditures or misappropriations of bond proceed funds; and
- Ensure that bond fund proceeds are accounted for according to the requirements of CSAM.

District's Response

Measure A bond series in question of \$141 million was loaded into an existing resource (9099) for a previous draw against this same bond measure. This should not prevent or impede the auditing of expenditures in this account for the purpose of verifying expenditures in accordance with the voter approved bond language.

Fund 21 under resource code 9099 was used for tracking revenue and expenditures associated with GO Bond Measure A funds and had a deficit of approximately \$21 million when the \$141 million series of bonds were received. All of the funds in fund 21 under resource 9099, without respect to the series, were Measure A funds and therefore under the same expenditure restrictions as approved by the voters of Oakland.

In fiscal year 2006-2007 the bonds were assigned separate resource codes.

The district will restate expenditure in current fiscal year 07-08 in accordance to the SACS account code structure.

SCO's Comment

The \$141 million was a separate bond issuance of an existing bond measure that occurred during the 2005-06 fiscal year audit. In the 2002-03 fiscal year audit, the district responded to a similar finding (03-62) with the statement that, "Future bond issuance will be recorded in compliance with CSAM" (California School Accounting Manual). CSAM requires that such funds be uniquely coded for identification and tracking purposes. In response to our current year's audit request to identify the use of the \$141 million in bond proceeds, the district stated that it was not required to track expenditures to specific bond measures or bond issuances and it had not done so. If the district is able to separately account for and track the use of bond funds, then this information should be provided when the audit is being conducted.

**FINDING 06-50—
Non-compliant
Proposition 20 lottery
fund expenditures
(30000) (40000)**

Our review of Proposition 20 Lottery Fund expenditures disclosed that \$270,946 of \$327,408, or 82.75%, of the expenditures reviewed were not in compliance with Education Code section 60010, subdivisions (h), (m), or (n). Four of the seven purchase orders reviewed were for expenditures other than instructional materials, as defined in Education Code section 60010, as follows:

- 23 computers, hard drives, and monitors amounting to \$28,035;
- Curtain, valance, and a drum curtain machine amounting to \$17,046;
- Contract services for intervention for FBB students amounting to \$5,000; and
- Unit/theme reading first assessment amounting to \$109,660, as well as end-of-year assessments amounting to \$13,755. The invoice appears to be for an assessment of the district’s reading program rather than for test materials.

The district did not provide documentation for the eight journal entry charges (to resource code 6300) we reviewed to determine whether the expenditure/transfer complied with Proposition 20 requirements. The eight journal entries (JE) are as follows:

- JE #6577 for \$3,000. The handwritten statement on the Transaction Listing report states that this entry is for “moving expenses from TIIG to lottery for duplicating equipment/supplies.”
- JE #6775 for \$9,667 contained a description reading “Journal all supply expense for GP to Lottery Fund to reduce deficit in GP.”
- JE #6813 for \$13,420 contained a description reading "Fully utilize IIUSP. Help GP deficit per principal's approval.”
- JE #6935 for \$8,765 contained a description reading “T I overspent.”
- JE #6858 for \$12,450 contained a description reading “GP supply deficit correction to lottery.”
- JE #7124 for \$26,092 contained a description reading “Move instructional materials to lottery fund.”
- JE #7033 for \$10,477 contained a description reading “Move instructional materials to lottery fund.”
- JE #7036 for \$12,362 contained a description reading “Journal instructional related supplies from GP unrestricted to the lottery instructional related account to help with deficit in GP unrestricted.”

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.

Recommendation

The district should ensure that Proposition 20 Lottery funds are spent for their intended purposes by:

- Complying with all provisions of Education Code section 60010;
- Implementing procedures whereby the program administrator reviews and approves any purchases using Proposition 20 Lottery funds and/or charges to (journal entries) resource code 6300;
- Maintaining and providing to the auditors, upon request, documents supporting the Proposition 20 Lottery fund expenditures; and
- Reviewing all of the Proposition 20 purchases and journal entries for fiscal year 2005-06 and reimbursing the fund for any non-compliant purchases.

District’s Response

Effective Fiscal Year 2008-2009 State and Federal Compliance staff will start monitoring and approving lottery fund expenditures to ensure compliance with all provisions of Education Code section 60010 and compile supporting documentation for approved expenditures.

**FINDING 06-51—
School accountability
report card (SARC)
reporting errors
(40000) (70000)
(71000) (72000)**

The 2005-06 School Accountability Report Card (SARC) contained information that did not agree with the Interim evaluation instrument, the summary of complaint data for various school sites, or the 2005-06 Board Minutes resolutions. The SARC reported inaccuracies in areas such as the safety, cleanliness and sufficiency of facilities; teacher misassignments/vacancies; and sufficiency of textbooks and instructional materials. We tested the SARC for ten schools and noted the following deficiencies:

- All school sites tested (10) failed to accurately report on the safety, cleanliness, and sufficiency of facilities for the 2005-06 school year. We noted 73 deficiencies listed on the Interim evaluation instruments that were not reported on the sites' 2005-06 SARC.
- The summary of complaint data for two sample school sites contained complaints regarding teacher misassignments/vacancies that were not reported on the sites' 2005-06 SARC. However, there were no teacher misassignment/vacancy complaints reported on the SARCs for the Paul Robeson School for the Visual and Performing Arts and Oakland Technical High School. The summary of complaint data for each school site indicates that three complaints were filed at Robeson and seven complaints were filed at Oakland Technical. Because the 2005-06 SARCs for Robeson and Oakland Technical did not report the complaints filed against them for teacher misassignments/vacancies, the district did not accurately report the correct information to the public.
- The SARCs for 3 of the 10 sample school sites indicated that there were sufficient textbooks and instructional materials; however, complaints were filed and the 2005-06 Board Minutes resolutions indicated insufficiencies. We noted the following reporting deficiencies:
 - The SARC for College Preparatory and Architecture Academy School indicates that none of the pupils had insufficient textbooks and instructional materials; however, four complaints were filed. The 2005-06 Board Minutes resolutions and determinations do not specifically address the complaints at this school site or the resolutions, if any.
 - The SARC for the Paul Robeson School of Visual and Performing Arts indicates that none of the pupils had insufficient textbooks and instructional materials; however, ten complaints were filed. The 2005-06 Board Minutes resolutions and determinations do not specifically address the complaints at this school site or the resolutions, if any.
 - The SARC for Oakland Technical High School indicates that none of the pupils had insufficient textbooks and instructional materials; however, nine complaints were filed. The 2005-06 Board Minutes resolutions and determinations do not specifically address the complaints at this school site or the resolutions, if any.

Education Code section 35186(d) states:

A school district shall report summarized data on the nature and resolution of all complaints on a quarterly basis to the county superintendent of schools and the governing board of the school district. The summaries shall be publicly reported on a quarterly basis at a regularly scheduled meeting of the governing board of the school district. The report shall include the number of complaints by general subject area with the number of resolved and unresolved complaints. The complaints and written responses shall be available as public records.

Education Code section 33126 (b)(5) states:

(b) The school accountability report 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 or services position that the employee is not otherwise authorized by statute to hold.

Recommendation

To ensure that the SARC contains accurate data the district should:

- Implement policies and procedures to ensure that the school sites are accurately reporting complaints regarding teacher misassignments/vacancies on the SARCs;
- Exercise proper oversight to determine that the school sites are following the policies and procedures for reporting complaints regarding teacher misassignments/vacancies on the SARCs and comparing SARCs to the complaint data it receives;
- Revise and report the correct complaint information for the 2005-06 SARCs for Robeson and Oakland Technical High Schools.

District's Response

With regard to the audit findings and the 2005-2006 SARCs:

- There was no process by which the Williams Settlement complaints were reviewed in order to ensure that data based upon them could be included in the development process of the SARCs.
- The Human Resources teacher data base for 2005-2006 was not comprehensive or completely accurate.
- Principals provided the teacher assignment data that was not always accurate.

In response to these findings, the 2006-2007 SARCs are currently being developed. The coordinated process includes data verification of textbook, teacher assignment, fiscal information, and facilities data:

- Human Resources Services is contacted for accurate teacher assignment data.
- Instructional Services Department is contacted to provide accurate textbook data.
- Facilities Services is contacted and Williams Settlement reporting data is cross referenced with work request orders to ensure repair data is accurate.

Additionally, OUSD has created a process by which:

- Human Resources Services provides accurate and timely teacher misassignment and vacancy data as part of the SARC development process.
- Instructional Services provides accurate and timely textbook and instructional materials data as part of the SARC development process.
- School and District fiscal data is provided.
- Facilities Services is contacted and provides accurate and timely facilities condition and repair data as part of the SARC development process.
- The SARC coordination team refers to ACOE Williams Settlement data for resolution of discrepancies with OUSD data.

**FINDING 06-52—
Class size reduction
(CSR) no training policy
(40000)**

The district does not have 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).

Thus, we will make 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.

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. In addition, the district should track all teachers who provide direct instruction in the CSR program to ensure that they receive the training.

District's Response

The OUSD BOE approved BP 6152 that focused on Class Size Instruction per the CSBA template and stated that the number of students in a class may affect the extent to which teachers can identify and respond to individual student needs and further discussed 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.

The District updated Administrative Regulation AR 6151 pertaining to class size reduction per Education Code 52127 regarding Class Size Reduction Training on 9/6/2007. The administrative regulation stated that the District will ensure all teachers participating in class size reduction will receive professional development that includes instructional strategies to maximize the educational advantages of Class Size Reduction. This 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 student (5 CCR 19845.1, Education code 52127).

During FY 2007-2008, the District will create a Class Size Reduction Policy that will comply with Education Code 52127 that will include procedures to monitor and track that all new teachers to the Class Size Reduction program are provided with training to maximize the education advantages of class size reduction. This training shall include, but not be limited to the following methods:

- Individualized instruction
- Effective teaching, including classroom management, in smaller classes
- Identifying and responding to pupil needs
- Opportunities to build on the individual strengths of pupils

**FINDING 06-53—
Lack of fiscal
monitoring and
oversight of district’s
charter schools
(30000) (40000)**

In our review of the 26 charter schools under the district’s authority, we noted the following deficiencies:

- The district did not provide evidence or documentation to support any fiscal monitoring or oversight activities it performed in carrying out its duties as a chartering authority.
- The district provided us with all but one of its charter schools’ audit reports. Of the 25 audit reports we received, 17 were marked on the cover sheet as reviewed with an indicated date. However, there were no initials, signature, or accompanying information to support the extent of the purported review. The remaining 8 audit reports did not include such a mark on the cover.
- The district was unable to provide an audit report for West Oakland Community (charter) School. The CDE reports that this charter school became inactive as of June 5, 2006.

Education Code section 47604.32, Duties of Chartering Authority, states, in part, that:

Each chartering authority, in addition to any other duties imposed by this part, shall do all of the following with respect to each charter school under its authority . . .

(c) Ensure that each charter school under its authority complies with all reports required of charter schools by law.

(d) Monitor the fiscal condition of each charter school under its authority.

Education Code section 47604.33, Annual Reports states, in part:

(a) Each charter school shall annually prepare and submit the following reports to its chartering authority . . . (4) on or before September 15, a final unaudited report for the full prior year.

(b) The chartering authority shall use any financial information it obtains from the charter school, including, but not limited to, the reports required by this section, to assess the fiscal condition of the charter school pursuant to subdivision (d) of Section 47604.32.

Education Code section 47605(k)(2) states:

The designated local education agency shall have all monitoring and supervisory authority of a chartering agency, including, but not limited to, powers and duties set forth in Section 47607, except the power of revocation, which shall remain with the State Board of Education.

Education Code section 47605(m) states:

A charter school shall transmit a copy of its annual, independent, financial audit report for the preceding fiscal year...to its chartering entity . . . by December 15 of each year.

Education Code section 47634.2 (d) states, in part:

. . . charter schools shall be subject . . . to audits conducted pursuant to Section 41020.

The district's policy on charter schools states:

. . . the superintendent or designee shall establish appropriate controls, including administrative regulations, defining oversight requirements, and other aspects of the relationship between the charter school and the District,

. . . any charter granted by the Board shall contain fiscal accountability systems . . . and charter schools shall provide regular reports to the Board to assist the Board in fulfilling its oversight responsibility

The CDE "Recommended Process for Charter School Closure"—as reported on its Web site at <http://www.cde.ca.gov/sp/cs/lr/csclosure/rules.asp>—is to have an independent audit of the charter school completed within six months after the closure of the school.

In addition, good internal controls require that the district use fiscal monitoring procedures to protect itself against adverse conditions or liabilities regarding its charter schools. Prudent business practice requires that staff be knowledgeable about fiscal monitoring procedures.

If the district does not provide adequate oversight of its charter schools, then fraud, illegal acts, or other noncompliance may occur. The district could be held liable in situations that could have been prevented through fiscal monitoring.

This is a partial repeat of prior year Findings 04-58 and 03-120.

Recommendation

As part of good internal controls, the district should establish and implement specific fiscal monitoring procedures for staff to follow in the fiscal monitoring and oversight responsibilities over its charter schools. The procedures should address:

- The analysis methods and criteria the district uses to observe and review the fiscal condition and operation of its charter schools;
- The documents to be used for performing these procedures and how the performance of the procedures will be shown;
- The frequency for performing these monitoring procedures;
- Actions to be taken by the district in given situations;
- The retention of documentation evidencing the performance of these procedures; and,
- A system of review to ensure that the monitoring procedures are adequately performed.

District's Response

During the 2005-2006 Fiscal Year the District expanded its fiscal monitoring to include ongoing memos and phone calls to charter schools documenting required financial oversight of charter school budgets, interim report reviews, financial reviews of unaudited actuals, financial audit reviews, attendance accounting reviews and other fiscal activities. Fiscal oversight activities were documented through the use of form emails with Excel spreadsheet alternative form attachments that reviewed the charter school's audit reporting fund balances, summarized assets, and liabilities. This preliminary analysis would generate further discussions and analyses of key findings. Each charter school was visited at least once a year and directors attended monthly meetings at the District site with the coordinator and the Financial Analyst to review pertinent fiscal policy information and the distribution of funds.

Effective Fiscal Year 2007-2008, a Charter Oversight Evaluation Form is completed at the annually scheduled and un-announced school site visits. The tool is aligned with the CDE Charter Oversight Form that focuses Governance and Oversight; Educational Performance, Fiscal Operations, and the over-all fulfillment of the charter. When a charter school must surrender its charter, the OCS School Closure Procedures Checklist instrument is completed to ensure all assets and liabilities are properly recorded during the dissolution of the school or corporate entity. The newly revised petition renewal process includes the completion of a Petition Evaluation Rubric along with a staff interview to ensure that the petition's educational program is sound, the capacity of the organization is capable of effectively implementing the proposed charter, and the petition can fulfill the 16 elements of a CA charter petition. A systematic fiscal oversight program has been established that includes a review of the unaudited financial report from the previous year, first interim review, review of the final audited report of the previous year, second intern report review, and review of the preliminary budget for upcoming year. OUSD fiscal oversight documentation includes completion of the Financial Review and Analysis Sheet and completion of a Balance Comparison Sheet. OUSD fees are documented through Memorandums of Understanding and include the fee collection schedule for special education services, facility use fees, BTSA Induction Program feeds, Nursing Services fees and oversight fees.

Summary Schedule of Prior Audit Findings Year Ended June 30, 2006

Prior Year Finding/Recommendation	Current Status	District Explanation If Not Implemented
FINANCIAL STATEMENT FINDINGS		
<u>Minimum Reserves</u>		
Finding 05-01—Minimum reserves not met The district did not maintain adequate general fund reserves.	Not implemented; Finding 06-01	Not provided
<u>Capital Asset Valuation Report</u>		
Finding 05-02—Capital asset valuation report not provided The district did not provide a capital asset valuation report for testing and review.	Partially implemented; Finding 06-03	Not provided
<u>Cash Account Deficiencies</u>		
Finding 05-03—Cash account deficiencies The district's cash balances had unreconciled variances that the district was unable to explain	Not implemented; Finding 06-05	Not provided
<u>Revolving Cash Account</u>		
Finding 05-04—Revolving cash account deficiencies District did not provide proper authorization for the Revolving Fund in accordance with Education Code requirements.	Not implemented	Not provided
<u>Cash Receipts</u>		
Finding 05-05—Internal control deficiencies over cash receipts District lacked internal controls relating to proper segregation of duties and safeguarding of assets.	Not tested	ASB and ASB cash receipts not tested per audit contract
<u>Interfund Transfer Deficiencies</u>		
Finding 05-06—Inappropriate use of interfund transfers District transferred funds to be used for a purpose not allowed by Title 2, Section 1866.4.3 of the California Code of Regulations	Not implemented; Finding 06-22	Not provided
<u>Revenue</u>		
Finding 05-07—Deficiencies in revenue reporting District did not make accruals for fiscal year 2004-05 revenues not received by year-end.	Not implemented; Finding 06-07	Not provided
<u>Purchases</u>		
Finding 05-08—Internal control deficiencies over purchases Products or services were paid for without adequate or proper approval, and without proper encumbrance.	Not implemented; Finding 06-10	Not provided

Prior Year Finding/Recommendation	Current Status	District Explanation If Not Implemented
<u>Bidding Process</u>		
<p>Finding 05-09—Deficiencies in bidding process</p> <p>The district did not maintain supporting documentation of the bids that took place during the FY 2004-05</p>	Partially implemented; Finding 06-25	Not provided
<u>Deficiencies in Internal Control Over Payroll and Personnel</u>		
<p>Finding 05-10—Deficiencies in internal control over payroll and personnel</p> <p>The district did not; maintain sufficient internal controls over personnel files, notify Payroll department of terminated employees in a timely manner, monitor vacation balances of employees.</p>	Partially implemented; Finding 06-04	Not provided
<u>Self-Insurance Fund</u>		
<p>Finding 05-11—Self-insurance fund deficiencies</p> <p>The district recorded inappropriate expenditures to the Self-insurance fund, and did not have the correct liability balance as of June 30, 2005.</p>	Not implemented; Finding 06-12	Not provided
<u>Associated Student Body and Subsidiary Funds</u>		
<p>Finding 05-12—Associated student body and subsidiary funds not presented and not audited</p> <p>District did not provide any financial data regarding the associated student body and subsidiary funds, and the funds are not presented in financial statements as required by GAAP.</p>	Not implemented; Finding 06-06	ASB and Subsidiary Funds not audited per contract
<u>Internal Counsel</u>		
<p>Finding 05-13—District’s internal counsel failed to acknowledge fraud risk factors and provide legal representation letters in a timely manner</p> <p>The district’s internal counsel failed to provide written acknowledgement of summary of inquiries pertaining to potential fraud, and did not provide the required legal representation letters in a timely manner.</p>	Implemented	
FEDERAL AWARD FINDINGS		
<u>Inadequate Internal Controls Over Federal Programs</u>		
<p>Finding 05-14—Inadequate internal controls and expenditures improperly charged in federal award programs</p> <p>Insufficient policies in place for verification of qualified vendors, contractors, hiring of highly qualified teachers and paraprofessionals. The district has inadequate internal controls over documentation and approval of expenditures for federal award programs.</p>	Not implemented; Finding 06-27	See district’s response to Finding 06-27

Prior Year Finding/Recommendation	Current Status	District Explanation If Not Implemented
<u>Employee Time Certification Records</u>		
<p>Finding 05-15—Employee time certification records not maintained</p> <p>Employee time certifications were not maintained for any of the employees funded under the NSLP and were not maintained for some of the employees funded by other major programs.</p>	Not implemented; Finding 06-28	See district’s response to Finding 06-28
<u>Special Education IEP Records not Properly Maintained</u>		
<p>Finding 05-16—Special education: IEP records not properly maintained</p> <p>Out of 63 Individualized Education Programs (IEP) for special education students, 6 were lacking one or more of the significant elements required by state and federal regulations and district policies.</p>	Not implemented; Finding 06-33	See district’s response to Finding 06-33
<u>Records Not Properly Maintained, Inaccurate and Unsupported Amounts Reported, Inadequate Controls Over Equipment</u>		
<p>Finding 05-17—Records not properly maintained, inaccurate and unsupported amounts reported, inadequate controls over equipment</p> <p>In 4 of 5 major programs reviewed, district did not properly maintain records, reported inaccurate and unsupported amounts, and exercised inadequate controls over equipment.</p>	Not implemented; Findings 06-29, 06-30, 06-32, and 06-34	See district’s response to Finding 06-29, 06-30, 06-32, and 06-34
<u>Prior Year Carryover Balances at Risk</u>		
<p>Finding 05-18—Prior year carryover of fund balances at risk if not appropriated or spent within period of availability</p> <p>Four out of five major federal programs had carryover amounts in consecutive years</p>	Implemented	
STATE AWARD FINDINGS		
<u>Reconciliation of Reported Attendance</u>		
<p>Finding 05-19—Variances in the reconciliation of reported attendance and district summaries</p> <p>Variances were noted between the ADA shown in the district’s summary reports and the ADA reported to CDE for both the P-2 and Annual reports of attendance</p>	Not implemented; Finding 06-36	See district’s response to Finding 06-36
<u>Street Academy’s High School Attendance Records</u>		
<p>Finding 05-20—Street Academy’s High School attendance records not maintained</p> <p>One of the 13 school sites tested (Street Academy High School) did not maintain attendance records to support the total number of attendance days claimed by the district.</p>	Street Academy attendance was not tested for FY 2005-06	District has appealed this finding

Prior Year Finding/Recommendation	Current Status	District Explanation If Not Implemented
<u>Attendance Records</u>		
<p>Finding 05-22—Attendance improperly recorded by school sites</p> <p>Out of 13 school sites tested, 8 did not properly record attendance due to errors by either the teacher or attendance staff.</p>	<p>Not implemented; Finding 06-37</p>	<p>See district’s response to Finding 06-37</p>
<u>Kindergarten Continuation</u>		
<p>Finding 05-23—Kindergarten continuation forms not compliant or not provided</p> <p>The district did not maintain a comprehensive list of students who were continued in kindergarten</p>	<p>Not implemented; Finding 06-39</p>	<p>See district’s response to Finding 06-39</p>
<u>Independent Study Agreements and Work Samples Deficient</u>		
<p>Finding 05-24—Independent study agreements and work sample deficient or not provided</p> <p>Deficiencies were noted regarding independent study for one of two full-time and eight of nine less than full-time independent study school sites.</p>	<p>Not implemented; Finding 06-40</p>	<p>See district’s response to Finding 06-40</p>
<u>Complete Attendance Records Not Maintained</u>		
<p>Finding 05-25—Complete attendance records not Maintained at Far West High School</p> <p>Far West High School did not provide the ATP20 Hourly Attendance Report for month based on variable minute for school months 2 and 4. These reports are needed in order to reconcile the information provided by the sites with the district’s attendance report supporting documentation sent for the CDE.</p>	<p>Not implemented; Finding 06-41</p>	<p>See district’s response to Finding 06-41</p>
<u>Adult Education Reporting and Accounting Deficiencies</u>		
<p>Finding 05-26—Adult education program attendance reporting and accounting deficiencies</p> <p>Attendance report deficiencies and attendance accounting errors were identified during the review of adult education.</p>	<p>Not implemented; Finding 06-42</p>	<p>See district’s response to Finding 06-42</p>
<u>Classes Not Approved for Adult Education</u>		
<p>Finding 05-27—Adult education: Classes not approved by the California Department of Education</p> <p>Four classes provided for adult education during FY 2004-05 were not approved by the CDE.</p>	<p>Implemented</p>	
<u>Adult Education Program Enrollment Deficiencies</u>		
<p>Finding 05-28—Adult education program enrollment deficiencies</p> <p>Review of the adult education program uncovered several deficiencies with the enrollment processes.</p>	<p>Not implemented; Finding 06-42</p>	<p>See district’s response to Finding 06-42</p>
<u>ITSDR Program Compliance Deficiencies</u>		
<p>Finding 05-29—ITSDR program compliance deficiencies</p> <p>At the 13 school sites reviewed, all had non-compliance-related issues pertaining to the ITSDR program.</p>	<p>Not tested</p>	<p>Program compliance no longer tested per CCR, Title 5, Section 19816.1</p>

Prior Year Finding/Recommendation	Current Status	District Explanation If Not Implemented
<u>Insufficient K-5 Instructional Minutes</u>		
<p>Finding 05-30—Insufficient K-5 instructional minutes</p> <p>Three school sites reviewed had deficient instructional minutes. Two of the three school sites’ deficient instructional minutes is because they included lunchtime in their instructional minutes.</p>	Not implemented; Finding 06-43	See district’s response to Finding 06-43
<u>Non-Compliance with Class Size Reduction Requirements</u>		
<p>Finding 05-31—Non-compliance with class size reduction program requirements</p> <p>The district over-claimed funding for its CSR program due to calculation errors.</p>	Implemented	
<u>Instructional Material Funding Realignment</u>		
<p>Finding 05-32—Non-compliance with instructional material program requirements</p> <p>The district did not identify the specific schools with insufficient material, offer the reason for such insufficiencies, or describe the action taken to address those insufficiencies. There was no evidence that the district gave notice to the teachers or the public regarding these insufficiencies.</p>	Not implemented; Finding 06-45	See district’s response to Finding 06-45
<u>Instructional Material Expenditures</u>		
<p>Finding 05-33—Expenditures not in compliance with instructional material program requirements</p> <p>Of the 35 expenditures reviewed, 13 (44% of the total expenditures reviewed) did not comply with program requirements.</p>	Not implemented; Finding 06-46	See district’s response to Finding 06-46
<u>Administrative Employees to Teachers Ratio</u>		
<p>Finding 05-34—Certain categories of employees inappropriately included in ration of administrative employees to teachers</p> <p>The district inappropriately included all teachers and administrators in its ratio without regard to funding source.</p>	Not implemented; Finding 06-47	See district’s response to Finding 06-47
<u>Gann Limit Calculation</u>		
<p>Finding 05-35—Inaccurate data used in Gann limit calculation</p> <p>The district’s Gann limit calculation was based on incorrect data, affecting the appropriations subject to limit.</p>	Not implemented; Finding 06-48	See district’s response to Finding 06-48
<u>County School Facilities Funds</u>		
<p>Finding 05-36—Non-compliant use of county school facilities funds</p> <p>The district purchased equipment inappropriate to be purchased with county school facilities funds.</p>	Not implemented; Finding 06-49	See district’s response to Finding 06-49

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