

# Oakland Unified School District

Board of Education  
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## **Meeting Minutes Long - Final**

**Monday, January 9, 2017**

**6:00 PM**

**KDOL TV Studio, B-237, Met West High School Entrance, 314 East 10th Street,  
Oakland, CA 94606-2291**

## **Audit Committee**

***Dan Lindheim, Chair  
Gregory Redmond, Vice Chair  
Beverly Hansen, Secretary  
Members: Edward Berne, Frank Tsai***

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**A. Call to Order**

*Chairperson Dan Lindheim called the meeting to order at 6:01 P.M.*

**B. Roll Call**

**Present** 5 - Member Frank Tsai  
Member Edward Berne  
Secretary Beverly Hansen  
Vice Chairperson Gregory Redmond  
Chairperson Dan Lindheim

**C. Speaker Request Cards/Modification(s) To Agenda**

*None.*

**D. Adoption of Committee Minutes**



[16-2418](#)

**Minutes - Audit Committee - October 3, 2016**

Approval by the Audit Committee of its Regular Meeting Minutes of October 3, 2016.

**Attachments:** [16-2418 Minutes - Audit Committee- October 3, 2016](#)

**A motion was made by Member Berne, seconded by Secretary Hansen, that the Committee Minutes be Adopted. The motion carried by the following vote.**

**Aye:** 5 - Member Frank Tsai  
Member Edward Berne  
Secretary Beverly Hansen  
Vice Chairperson Gregory Redmond  
Chairperson Dan Lindheim

**Non-voting:** 0

Enactment No: 16-1981



[17-0031](#)

**Minutes - Audit Committee - November 7, 2016**

Approval by the Audit Committee of its Regular Meeting Minutes of November 7, 2016.

**Attachments:** [17-0031 Minutes - Audit Committee - November 7, 2016](#)

**Postponed**

**E. Unfinished Business**



16-1757

**Internal Auditor - Function/Position**

Discussion by the Audit Committee of the function of an Internal Auditor and possible adoption of a recommendation to the Board of Education regarding said function/position.

**Attachments:** 16-1757 Internal Auditor - Function/Position

*Chairperson Lindheim said several Members of Board of Education thanked the Committee for sending the letter of concern regarding the importance of the District having an Internal Auditor position. Chairperson Lindheim said the Committee will have to wait until the 2017/2018 budget development process is completed. Chairperson Lindheim said he does not feel the position will be filled immediately since a notice to all OUSD staff that no funds should be spent unless absolutely necessary.*

**Discussed**

 [16-2707](#)**District Financial Audit - Vavrinek, Trine, Day & Co., LLP - Fiscal Year Ending June 2016**

Presentation to the Board of Education of the District's Financial Audit Report for the Fiscal Year Ending June 2016 by Vavrinek, Trine, Day & Co., LLP ("VTD").

**Attachments:** [16-2707 Executive Summary - District Financial Audit - Vavrinek, Trine, Day & Co., LLP - Fiscal Year Ending June 2016](#)  
[16-2707 Presentation - 16-2707 District Financial Audit - Vavrinek, Trine, Day & Co., LLP - Fiscal Year Ending June 2016](#)  
[16-2707 District Financial Audit - Vavrinek, Trine, Day & Co., LLP - Fiscal Year Ending June 2016](#)

*Gloria Gamblin, Interim Chief Financial Officer, said with the completion of the 2015/2016 fiscal year audit which was completed within the same year, the District is current with all its audit reports. In the past the District had been several years behind with audits.*

*Ms. Gamblin said there were nine (9) findings in the 2015/2016 Audit Report. Eight (8) were repeat findings from the prior year with one (1) finding having financial implications of about \$10,000. Four (4) English Language Learner designations were mis-coded. The error has since been corrected. Ms. Gamblin said staff worked with the various departments to make sure corrective measures were put into place so the findings don't repeat themselves in future financial audits. Staff will continue to monitor these findings throughout the year to make sure the departments implement what they said they would.*

*The Audit was given a "Qualified" opinion as a result of the Associated Student Body Funds (ASB) not being audited in fiscal year 2015/2016. The District has a plan in place to bring ASB accounts into compliance so that the 2016/2017 audit will include ASB funds.*

*Leonard Dana – Vavrinek, Trine, Day & Co., LLP*

*Mr. Dana said there are still findings. Some are findings they knew ahead of time would not be remedied in the year like the ASB funds. Dana said the 2016/2017 fiscal year is when the District planned to implement and audit the ASB funds.*

*Carryover findings include: School Accountability Report Card (State compliance item), not considered to be significant, but Dana cautioned the Committee about the other findings.*

*Areas of Concern to Auditors*

*Finding #1 – Fund 76 – Payroll Revolving Fund was not reconciled in a timely manner.*

*VTD requested the District reconcile Fund 76 monthly. The reconciliation was completed by Bonnie Ruesh, in late November. An Audit adjustment of about \$300,000 was made, but this does not mean something is wrong with District practices. He said had Fund 76 been reconciled monthly, the adjustments would have been made in the normal course of business.*

*Mr. Dana talked about the liability to the State Teacher Retirement System (STRS) and Public Employee Retirement System (PERS). He said there were a couple of retro-active pays to employees and the amount of the benefits was accrued. The financial statements reflect the actual expense that should be there, but the money had not been paid. That was an issue because the money needed to be paid to STRS and PERS so that people get their benefits. Dana said payment was made and he believes the accounts are current. He said this is an example of what can happen when you don't reconcile monthly. Dana said monthly reconciliation is needed with a person dedicated to make sure it occurs.*

*Vice Chair Redmond asked about the amount of time it will take staff to do monthly*

reconciliations?

Ms. Gamblin said she could not answer that question. Said she would need to look into why it is not currently being done.

Chairperson Lindheim said when the Controller previewed the Audit Report last month, it seemed like there were some obstacles and he wanted to know were there any underlining obstacles the Committee should know about and should the administration address them?

Mr. Dana said he heard a few things but he didn't know enough to validate what he has heard. Dana said he does think the District has made attempts to get the process implemented. He said there may be some issues, but he is hesitant to say something that he doesn't know all the facts about.

Committee Member Tsai spoke about the auditors waiting on documentation from other departments.

Chairperson Lindheim suggested to Ms. Gamblin that the auditors perceive this to be a serious issue.

Ms. Gamblin said she will look into the matter and come back to the Committee with alternative options on reconciliation.

Chairperson Lindheim said the reason this was an issue, in the past there were a number of things the Committee predicted. This is one of the items that was supposed to be taken care of in the current fiscal year Audit. He said for years the Committee said it understood you can't take care of the findings because there were in the past. This was the first time the Audit is in the present.

Ms. Gamblin said she will take the message back and work with staff on doing monthly reconciliations. The PERS and STRS reconciliations are part of the payroll process. Ms. Gamblin said she will research how this went unpaid.

Chairperson Lindheim said the ASB was the other item to be addressed. He said the Controller said it sounds like this will be a finding in the current year, not just last year.

Vice Chair Redmond said more than likely. He said keeping the ASB fund current is a time consuming process. The first year or two will take a significant investment in time from financial staff and cooperation from site administrators as well as the Network Superintendents to make this a priority.

Vice Chair Redmond requested at next month's committee meeting the heads of the various departments associated with Fund 76 make a presentation before the Audit Committee outlining the steps they are taking to ensure monthly reconciling occurs.

Leonard Dana said VTD's work is audited by the State Controllers Office. They are just starting to review the 2014/2015 year and providing a few comments. The process has gone smoothly and is very helpful. The other finding (second year and did not expect it would be remedied) Human Resources and Payroll. This finding was due to a lack of documentation, a lack of consistency in the application of District policies and procedures for internal controls around ensuring salaries are coded to the correct funding source and ensuring people are removed from the benefits program when they need to be. VTD hasn't found any instances of this, but given the size of the District, and it's the largest single expense of the District, it is not possible to go through the audit with 70% and say everything is okay. You must rely on internal controls. You want the District to remediate the findings and to develop written internal controls that are specific to certain risks that the

*auditors have identified such as ensuring payroll is coding the correct funding source and to develop and document procedures making them standard to ensure they are implemented by staff on a routine basis. This was noted last year, but the last financial statement was published on June 30, 2016 so there was no expectation the finding would be implemented this fiscal year. This finding will probably take a few years to fully work its way for the District to implement corrective action, allowing auditors the time to audit the information. There is a process in place currently.*

*Committee Member Berne said there were items, rather than put into writing in a management letter, you communicated them to staff.*

*Leonard Dana: Said "Generally speaking".*

*Committee Member Berne asked if that was that normal? The Audit Committee doesn't get to see that.*

*Dana said when the required communication letter was sent, that overrode the management letter. We don't typically issue management letters anymore. We audit the financial statement, the items that need to be reported to the Audit Committee are more specific issues. The findings in the financial statement serves as notification to the Audit Committee.*

**Discussed**

## **F. New Business**

 [17-0028](#)**Update - Report - District Purported \$30 Million Deficit - Senior Business Officer**

Updated - Report to the Audit Committee by the Senior Business Officer or designee regarding the District's purported \$30 Million deficit for Fiscal Year 2017-18 and of a possible Qualified 2nd Interim Report (March, 2015) for current Fiscal Year 2016-17.

**Attachments:** [17-0028 Update - Report - District Purported \\$30 Million Deficit - Senior Business Officer](#)

*Chairperson Lindheim said there was an article in the Oakland Post in December and one in January in the San Francisco Chronicle indicating the District had serious financial issues. He said the articles were hard to follow as to what was being alleged. Chairperson Lindheim said he wasn't sure if they were talking about current year issues, next year issues, or how much of which. One of the comments made was the District was expecting to have a "Qualified" Report for the 2nd Interim Report. He said there was so much congratulations for the first "Positive" Certification for the 1st Interim Report, the allegation of a "Qualified" Report for the 2nd Interim Report is of concern. He said the reason for the item on today's agenda is to get some clarification. He noted a communication sent to all staff today not to spend any funds unless necessary and asked for that communication be included in the presentation.*

*Gloria Gamblin, Interim Chief Financial Officer said she will use the same presentation that will be shared with the Board at the Wednesday Board Meeting in response to the \$30 million deficit question, but not sure this will cover what Chairperson Lindheim wants. Ms. Gamblin said in the 2nd Interim Report certain conditions must be made in order to submit a "Qualified" financial report.*

- There is a multi-year projection looking at where you are in the current year and project the next two years out. One of the criteria for a "Qualified" report is that two of the three years, if you have a net deficit (take all the revenue and subtract your expenditures), you are budgeting more expenditures than you have revenue.*
- Also looking at the fund balance are there trends - are we eating into the fund balance where it goes down? Ms. Gamblin said she is not sure if the District will file a "Qualified" financial report until the 2nd Interim Report is submitted to the County Office of Education to see what happens.*
- The 1st Interim Report the District was in a positive position; revenues exceeded expenses and fund balances were strong.*
- In the 3rd year out, the 1st Interim Report, it went down some. A lot of money was set aside for audit findings in the last three years, and the audit findings have been paid so the fund balance would go down. If we submit a financial report and we said it was "Positive", the County Office of Education reviews our reports and they can change our certification from "Positive" to "Qualified" or "Negative". If they have serious concerns they will meet with the District, that rarely happens because the county office of education has fiscal oversight over Districts in their county.*

*Gamblin said to address the alleged \$30 million deficit, you have budget recommendations. This shows how we invest our current funds in the instructional program, reallocation those resources elsewhere.*

*Executive Summary: To develop the budget each year, OUSD engages in a budget prioritizing process to align resources to our focus areas for the students. The District has met with several community partners; PSAC, Equity Pledge Fund Committee, and Superintendent Work Plan 3A, (a budget development process that includes LCAP and all community functions). After stakeholder engagement, you look at all resources and investments and prioritize how we want to spend the budget for 2017/2018. This document contains recommendations to the Board on how to reduce funds in some focus areas and*

change them to new focus areas.

Chairperson Lindheim asked if the reductions were for fiscal year 2017/2018, and not for the current year?

Ms. Gamblin referred to the notification of all unrestricted General Fund expenditures spending limitations protocol sent to all staff this morning. She said this means your restricted funds (supplemental and concentration funding sources) can still be used. The freeze is only on the unrestricted funds.

Vice Chair Redmond asked was it possible to enter into a new contract today?

Ms. Gamblin said "Yes", there was a high volume of purchase order requests today.

In addition to the spending limitation protocol for the unrestricted funds, there is a three step appeal process. At the school site a teacher can initiate a purchase order request giving the rationale for the request; the principal will have to approve he or she is in agreement with the request; the appeal request form goes to the appropriate Network Superintendent who has to approve the expenditure; the appeal next goes to the CFO where she approves or denies and staff verifies sufficient funds are there for the expenditure; depending on the type of request (instructional/operational) it may go to the new Interim Superintendent for approval (instructional) and Michael Gall (operational). It takes 2 of the 3 approvals to approve your appeal.

Chairperson Lindheim wanted to know much money is available to be frozen?

Ms. Gamblin said administrators and program staff are asked to use their restricted funds first. She said Vernon Hal, Senior Business Officer, said there is about \$15 million available for spending, as of this morning that amount was down to \$13 million.

Recommendation investments – Requires Board Approval

- Increase supplemental and concentration funds
- PEC (Special Ed) additional cost to meet the needs of the students
- Measure G – Set aside for Charter Schools (old) – District has agreed to give Charters an allocation over a 5-year period, year 5 they will have 100 percent due to them
- Increase support for ECE \$800K
- Increase support for Innovation \$205M
- Increase support for food service \$400K
- Rebuild reserves to 3% - state law only requires a districts the size of Oakland 2% for economic uncertainties – currently below 3% - Board would like 4% to have a cushion for unforeseen events
  - o Total \$22 million to reallocate resources to these areas

Chairperson Lindheim asked if these were incremental amounts from the current budget year, over and above what is currently allocated?

Ms. Gamblin said "Yes".

Committee Member Berne asked if the recommendation of a 4% reserve coming from Board or the Superintendent?

Ms. Gamblin said from the Board, but she will verify that.

Committee Member Tsai said these items are for next year's budget. When does the Board approve the budget?

*Ms. Gamblin said decisions on the recommendations need to be made now for the financial department to begin the budget development process. The budget goes to the Board in June for review at the first meeting and for approval at the last meeting in June.*

*Committee Member Tsai asked if there were sources of funding for the additional \$25M?*

*Ms. Gamblin said all will come out of the general fund. The restricted funds have requirements that must be adhered to.*

*Vice Chair Redmond asked why the purchase orders submitted today did not have to go through the appeal process?*

*Ms. Gamblin said it was the timing, the memo was dated 1/8/17 at 6:28am.*

*Committee Member Tsai noted District enrollment projections were off by about 900 students last year. Does the District anticipate the same drop in enrollment this year and the enrollment forecast for 2017/2018?*

*Ms. Gamblin said the current year enrollment projections was lower than projected by the District. There are enrollment projections for next year and she will get that information to Committee Members.*

*Secretary Hansen talked about PEC and charter schools. She wanted to know how many Special Education students are sent out of the District for Special Education services? Said she would like to have more information about charter schools and the costs to the District.*

*Ms. Gamblin said The District contracts out for Speech Pathologists. The District is looking to hire more Speech Pathologist as District employees which should cut costs.*

*Ways to reduce the Special Education Costs*

*-District is looking at training Para Professionals to provide medical services. Often the District has to hire outside persons to provide 1:1 medical services to our students.*

*-Increasing vendor management to ensure the alignment of services and students. District is looking at opening non-public classrooms on District campuses as part of the Special Education Program.*

*Recommended reductions for 2017/2018 = \$21.6 million*

*Recommended reductions for the Board to take action on, total Central Office infrastructure is \$10.5 million from operations.*

*Total Districtwide recommended reductions - \$1.1 million*

*Total Site recommended reductions - \$4.5 million*

*All are proposed reductions*

*Chairperson Lindheim wanted to know if the District is concerned about the current fiscal year and the \$15 million in the general funds the District is hoping to withhold some portion of was to build up the reserves for next year to start digging into the \$22 million? Or is there an issue this fiscal year that spending is in excess of revenue and the issue more timely in the concern?*

*Ms. Gamblin said her understanding it is to build up the reserves in the current year, you get the additional 3% or 4% which is about \$10 million. This will be taken care of going*

*forward and the rest will take place in 2017/2018.*

*Chairperson Lindheim asked if the District was in a Deficit of \$30 million upside down for 2016/2017 or any other number?*

*Ms. Gamblin said she hasn't seen anything to that nature. The information she has is the realignment of resources to focus on our investments and the reserves.*

*Chairperson Lindheim said he has heard there is a proposal to spend an additional \$22 million beyond what currently exists. Unless the District does something, it will be upside down \$22 million. The District is trying to build up its reserves. The District is proposing substantial new spending and if there is not substantial new revenue, cuts in other programs will have to be made.*

*Ms. Gamblin said that was correct. She said under Local Control Funding Formula (LCFF), the District was receiving additional funding over several years with the understanding each year the amount would decrease. The District is at the point where that is stabilizing, another reason this needs to be done as well.*

*Vice Chair Redmond said the potential for a \$30 million shortfall could include the additional \$22 million or is that \$22 million in addition to the potential \$30 million for 2017/2018?*

*Ms. Gamblin said the \$22 million is what the District needs to reinvest funds elsewhere. If you invest it elsewhere, you have to uninvest in current expenditures. The District also wants to restore its reserves. It's a realignment of resources to meet the investments and to restore District reserves.*

*Chairperson Lindheim said his immediate concern is if there is a shortfall in the current year, it will jeopardize the progress already made. He asked if it becomes known that there is a 2016/2017 issue, Ms. Gamblin should let the Committee know as soon as it she knows. For 2017/2018 it is part of the budget process and Committee Members are interested observers in the process.*

**Discussed**

 [17-0029](#)**Presentation - Edward Berne, Audit Committee Member**

Comments, observations, recommendations to the Audit Committee by Edward Berne, departing Member (January 31, 2017) on his Committee tenure.

**Attachments:** [17-0029 Presentation - Edward Berne, Audit Committee Member](#)

*Edward Berne is stepping down from the Audit Committee effective January 31, 2017. Mr. Berne had some operational recommendations for the Audit Committee.*

1. *The Board policy that the Committee makes a semi-annual Report to the Board. Mr. Berne said it had not been done during his tenure on the Committee. He suggested Committee Members take on that responsibility rather than the Committee Chair. Once in each two-year term, each member would make the report starting with the officers down to the members.*
2. *Orientation and training for Committee Members – Said there should be some type of orientation meeting talking about the legal requirements, open meeting acts, etc.*
3. *Minutes – Recommendation is to have minutes in draft form sent to Committee Members and they would have plenty time to forward any comments they may have. He referenced Board Policy 9131. Section 1.4.5 which says the minutes are to be sent to Committee Members within 10 days of the meeting and that has not happened.*
4. *Conflicts of Interest – The District has a good and strong policy in his opinion. However, it has not always been effectively enforced. Recommendation: Audit Committee receive a presentation from CFO on how the Conflict of Interest policy is enforced.*
5. *Whistleblower Protections – Currently no way for someone to report anything anonymously. The Committee may want to state if they believe the present Whistle Blower protection policy is sufficient.*
6. *Purchasing – Said he has experience in this area and feels the report the Committee received from Ruth Alahydoian, former CFO, made a commitment to hire a consultant to evaluate the department, and doesn't think that it happened. If it did, the Committee should get a report on it.*
7. *Internal Auditor – Assuming the position is funded, he hopes the Committee has some input on interviewing candidates for the position. If no Internal Auditor is hired, the Board of Education should rescind Board Policy BP3462 that calls for an Internal Auditor.*
8. *External Auditor – When the current contract expires, the Committee should evaluate their performance and make a recommendation to the CFO whether the current contract should be extended, if possible. The Audit Committee should evaluate the Internal Auditor and needs to be proactive and know when the contract is up.*
9. *Waste, fraud and mismanagement – Said he feels it exists due to the size of the District. Feels for the most part employees are honest, but there perhaps a few that are not. What should the District do about this?*
10. *Unfunded pension liability – Not sure about the alleged \$250 million, it could not be anything to be concerned about. Feels the Committee should not ignore this. Should take up the matter and think about if this is something important or not. Should go on record as to what to do about it, if anything.*

Chairperson Lindheim said when the outside auditors talk about the pension liability, the question was posed to them if there was anything the District should do? They answered "No". It doesn't mean STRS or PER are not upside down, it's an issue there is nothing in the short term the District can do other than follow what the mandates are from STRS and PERS.

11. *Audit Findings – Fund 76 and ASB have been issues. Said he hopes the Committee will keep the pressure on the District to get these two resolved. He said Vernon Hal said it was solved and Daniel Menyon said both items were up to date, but that is not correct.*

12. *Management Letter – Said he doesn't see why there is not one.*

13. *Continued turn over in the Finance Department. Is there a succession plan for the Senior Business Officer? Feels it is the committee's responsibility to ask the question.*

*Chairperson Lindheim wished Mr. Berne well.*

**Discussed**

## **G. Public Comments on All Non-Agenda Items Within the Subject Matter Jurisdiction of the Committee**

[17-0027](#)**Public Comments on All Non-Agenda Items Within the Subject Matter Jurisdiction of the Audit Committee - January 9, 2017**

Public Comments on All Non-Agenda Items Within the Subject Matter Jurisdiction of the Audit Committee - January 9, 2017.

*Public Comments – Board Member and Audit Committee Liaison, Shanthi Gonzales*

*Director Gonzales thanked Committee Member Burne for his service on the Audit Committee. Director Gonzales spoke to some of the budget questions raised by Committee Members.*

*She said there are 175 Special Education students who are in non-public schools, a very high number for a District this size. Staff is proposing to create programs inside the District to serve the more disabled students. Director Gonzales feels it's unrealistic that the District will get half the number students placed in programs inside the District next year, it will probably be incremental.*

*Spending freeze (Board Resolution) will be presented to the Board on Wednesday. Said she believes the Board has created contracts for a certain number of employees and the hiring freeze needs to be approved by the Board. Freezing school budgets in the middle of the school year presents problems. Principals come to OUSD with an understanding what their budget will be for the school year. Less concerned about freezing the budgets at central office. Extended Contracts for teachers are used for a variety of essential functions at school sites.*

*There is no formal agreement with charter schools on the sharing of Measure G funds. When first introduced by the Superintendent, it was contingent on the idea the charter schools would start pulling their weight serving their fair share of Special Education students (such as high functioning autism, other kinds of less severe disabilities). Director Gonzales feels the District already subsidize charter schools because the District is serving the most expensive to serve Special Education students. Said she is not interested in giving any Measure G Funds to Charter Schools until they are pulling their weight when it comes to Special education.*

*The 4% reserve is not something raised by the Board, but by the Superintendent. The idea is with the incoming administration, Department of Education, speculation Title 1 funds, (OUSD heavily relies on) will go away. The Superintendent is trying to hedge the risk we are unsure. Said it is not a bad idea, the cost is significant.*

*The spending freeze is not only for reserve. Said she is seeing significant expenses not budgeted for in Special Education, Nutrition Services and Early Childhood Education. In 2014 the minimum wage was raised in the City of Oakland. Salary increases were budgeted for, but not enough thought regarding pension costs and other related expenses when you raise salaries.*

**Presentation/Acknowledgment Made**

**H. Introduction of New Legislative Matter**

*None.*

## I. Adjournment

*Chairperson Lindheim adjourned the meeting at 7:51 P.M.*

Prepared By: \_\_\_\_\_

Approved By: \_\_\_\_\_