

**OAKLAND UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDITS OF
BOND MEASURE B REVENUES AND EXPENDITURES**

for the year ended June 30, 2012

Yano Accountancy Corporation

**OAKLAND UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDITS OF
BOND MEASURE B PROJECT BUDGETS AND EXPENDITURES
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Report of Independent Auditors on the Financial Audit

Honorable Members of the Board of Education
and Members of the Measure “B” Independent Citizens’
School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the accompanying Schedule of Bond Measure B Revenues and Expenses, a fund of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2012. This financial schedule is the responsibility of OUSD management. Our responsibility is to express an opinion on this financial schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OUSD’s internal control over financial reporting as it pertains to the Measure C fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial schedule was prepared to present the total revenues and expenditures of the Measure B fund as described in Note 2, and do not purport to, and do not, present fairly the changes in OUSD’s financial position for the year ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, Bond Measure B revenues and expenditures of OUSD for the year ended June 30, 2012, in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2013 on our consideration of OUSD’s internal control over financial reporting as it pertains to the District and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of Bond Measure B expenditures by project is presented for purposes of additional analysis and is not a required part of the financial schedule. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Yano Accountancy Corporation

Oakland, California
June 5, 2013

OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF BOND MEASURE B REVENUES AND EXPENDITURES
for the year ended June 30, 2012

Revenues, net:	
Net bond proceeds:	
Par value of bonds issued	\$ 55,000,000
Bond premiums	1,798,280
Deposits to debt service reserve fund	(1,025,763)
Underwriter's discounts	(462,517)
Costs of issuance	<u>(310,000)</u>
Net bond proceeds	<u>55,000,000</u>
Interest earnings on unexpended proceeds	<u>264,388</u>
Total revenues, net	<u>55,264,388</u>
Expenditures:	
Project expenditures	(80,961,803)
District staff costs and program consultants	<u>(9,607,252)</u>
Total expenditures	<u>(90,569,055)</u>
Excess (deficiency) of revenues over expenditures	(35,304,667)
 Fund Balance	
Beginning of the year	<u>107,848,008</u>
End of the year	<u>\$ 72,543,341</u>

See accompanying notes.

**OAKLAND UNIFIED SCHOOL DISTRICT
NOTES TO SCHEDULE OF BOND MEASURE B
REVENUES AND EXPENDITURES
June 30, 2012**

1. Description of Reporting Entity

The voters of Oakland, California passed School Facilities Bond of 2006 (also known as “Measure B”) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278, authorizing the issuance of up to \$435,000,000 of Measure B bonds for school renovation, modernization and new construction. The following excerpt from Measure B summarizes the purpose of the bonds:

“...The purpose of the bonds is to finance the repair, modernization and construction projects specified in the measure’s Bond Project List for the District elementary schools, middle schools, high schools and pre-schools. Proceeds from the sale of bonds authorized by Measure B may be used only for the listed projects consisting of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities; they may not be used for any other purpose...”

2. Summary of Significant Accounting Principles

Basis of Presentation

The accompanying financial schedule presents only the revenues and expenditures of Measure B activities and does not purport to, and does not, present fairly the changes in financial position of the Oakland Unified School District (“OUSD”) for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

A special revenue fund (governmental fund) is used by OUSD to report Measure B activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. A special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Basis of Accounting

The Measure B activities are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when “susceptible to accrual” (i.e., when they become both measurable and available). “Measurable” means that the amount of the transaction can be determined and “available” means that revenues are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Expenditures for Capital Assets

Expenditures for capital assets are treated as current-year expenditures under modified accrual accounting.

OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF BOND MEASURE B REVENUES AND EXPENDITURES
for the year ended June 30, 2012

Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

3. Contingencies

OUSD receives a number of claims from contractors for extra work, loss of efficiency, acceleration or work and delay. OUSD intends to vigorously defend these claims. Even in the event of unfavorable outcomes, OUSD management believes that such unfavorable outcomes will not have a material impact on the financial schedule.

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT
for the year ended June 30, 2012**

Site	Project	Expenditures
Project expenditures:		
Projects in pre-design:		
Whittier	New Building	\$ 72,089
Allendale	Allendale Fire Alarm Replacement	105
Burbank (Explore)	Small Schools	-
Roosevelt Elementary	Modernization	226
Lakeview CDC	Fire and Intrusion Alarm Replacement	-
Laurel Elementary	Intrusion Alarm	-
Lazear Elementary	Modernization	36,420
Melrose	Small Schools (Bridges)	-
Total projects in pre-design		<u>108,840</u>
Projects in design:		
Webster Academy	CDC Replacement	6,829
Joaquin Miller	Fire and Intrusion Alarm	-
Glenview Elementary	Fire and Intrusion Alarm	32,803
Foster Elementary	Fire Alarm Replacement	11,424
Burbank Elementary	Fire and Intrusion Alarm	36,444
Bella Vista Elementary	Fire and Intrusion Alarm	2,087
Far West High School	Fire and Intrusion Alarm	-
Lafayette Elementary	Fire and Intrusion Alarm	32,340
Santa Fe CDC	Fire and Intrusion Alarm	10,899
Sherman Elementary	Fire and Intrusion Alarm	-
Webster Academy	Kitchen Renovation	70,607
Centro Infantil	CDC Fire Alarm Replacement	2,450
Manzanita Elementary	CDC Fire Alarm Replacement	7,350
Piedmont	CDC Fire Alarm Replacement	67,523
Washington Small Schools	CDC Fire Alarm Replacement	-
Life Academy	Life Academy Renovation	95,015
Hintil	CDC Replacement	6,342
Golden Gate	CDC Fire Alarm Replacement	490
Skyline High School	Auditorium Fire Alarm Replacement	-
Laurel Elementary	Fire Alarm Replacement	-
Fremont Federation	Modernization Phase 3	59,274
Total projects in design		<u>441,877</u>

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT, Continued
for the year ended June 30, 2012**

Site	Project	Expenditures
Projects under construction:		
Sobrante Park	Modernization	472,307
Piedmont Avenue Elementary	Fire and Intrusion Alarm	14,573
Lockwood CDC	Fire and Intrusion Alarm	18,990
Jefferson Elementary	CDC Fire Alarm Replacement	66,013
King Estates Schools	Fire Alarm Replacement	11,194
Washington Small Schools	Small Schools (Sankofa)	1,786,734
Oakland Tech	Retro Commissioning Project	28,386
Buchalter Elementary School	Portable Installation Project	75,524
Grass Valley Elementary	Portable Installation Project	67,529
Oakland High	Building G Restroom Project	197,740
Calvin Simmons	Building G Restroom Project	1,194,989
Piedmont	Portable Library	2,115
Laurel Elementary	CDC Replacement	221,893
Montclair	New Classroom	1,797,988
Stonehurst	CDC Replacement	977,177
Manzanita Elementary	Modernization	1,429,858
Arroyo Viejo	CDC Replacement	656,821
Havenscourt Middle	Classroom and Cafeteria	1,449,979
District-wide	Fire Alarm Maintenance	653,014
Total projects under construction		<u>11,122,824</u>
Projects in close-out:		
Oakland High	Williams Settlement	1,563
Madison Middle	Modernization	922,108
Chabot Elementary	Portable	863,852
Urban Promise Academy	Multi-purpose Gym	247,025
Calvin Simmons	Health Center	158,087
Roosevelt Middle School	Health Center	27,013
District-wide	Playground Inspections & Repair	590,838
Elmhurst Middle	Modernization/ Small Schools	2,059,676
Lowell Middle	Modernization	13,393,459
Lowell Middle	Health Center	15,547
La Escuela Educational Complex	New Educational Complex	29,400,707
Highland Small Schools	New Building	10,292,959
Harriet Tubman	CDC Fire Alarm Replacement	60,940
Lockwood	ES Fire and Intrusion alarm Replacement	407,118
McClymonds Small Schools	Small Schools	25,066
Madison Middle	Health Center	28,158
Page subtotal for projects in close-out		<u>58,494,116</u>

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT, Continued
for the year ended June 30, 2012**

Site	Project	Expenditures
Projects in close-out subtotal balance forward		\$ 58,494,116
Havenscourt Middle	Modernization	412,309
Montera	Modernization	1,426,184
Montera	Fire Alarm	84,051
Prescott Small Schools	Small Schools (PLACE)	134,498
Jefferson Elementary	Portable	836,419
Jefferson Elementary	Portable	2,143,753
Stonehurst	Restroom Renovation	3,446
Oakland High	Health Center	434,243
Oakland High	Modernization	2,030,504
Cox Elementary	Additional Classroom	241,834
Cox Elementary	Modernization/ Small Schools	21,992
Ralph Bunche	Modernization	-
Prescott Small Schools	Modernization	379,158
Edna Brewer	Restroom Renovation	-
Skyline High School	Skyline HS Wellness Center	286,359
Frick	Frick Wellness Center	535,075
Elmhurst Middle School	Elmhurst wellness Center	308,637
Havenscourt Middle	Health Center	623,671
Yuk Yau	CDC Fire Alarm Replacement	11,873
Highland Small Schools	CDC Fire Alarm Replacement	4,605
Cesar Chavez Elementary	School Fire Alarm Replacement	570,321
Roosevelt	ES Fire Alarm Replacement	172,123
Redwood Heights	ES Fire Alarm Replacement	391
Highland Small Schools	Fire Alarm Upgrade	-
Brookfield	Playground	38,219
Lincoln Elementary	Portable Replacement	74,698
Stonehurst	Small Schools (Esperanza)	4,000
Calvin Simmons	Modernization/Small Schools	4,893
Whittier	Modernization	10,890
Total projects in close-out		<u>69,288,262</u>
Total project expenditures		<u>80,961,803</u>
Other Measure B expenditures:		
District staff		2,110,822
Consultants and professional services		<u>7,496,430</u>
Total other expenditures		<u>9,607,252</u>
Total expenditures		<u><u>\$ 90,569,055</u></u>

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Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Schedule Performed in Accordance with *Government Auditing Standards*

Honorable Members of the Board of Education
and Members of the Measure “B” Independent Citizens’
School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the Schedule of Bond Measure B Revenues and Expenses, a fund of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2012, and have issued our report thereon dated June 5, 2013, which included an explanatory paragraph describing the basis of accounting and the presentation of the financial schedule. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered OUSD’s internal control over financial reporting as it pertains to Measure B as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedule but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OUSD’s internal control over financial reporting as it pertains to Measure B.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Financial Audit Findings, we identified a combination of certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the combination of deficiencies described in findings 2012-01 and 2012-02 in the accompanying Schedule of Financial Audit Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure B financial schedule is free of material misstatement, we performed tests of its 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 schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described Finding 2012-03 in the accompanying Schedule of Financial Audit Findings.

We noted certain matters that we reported to management of OUSD in a separate letter dated June 5, 2013.

OUSD's responses to the findings identified in our audit are described in the accompanying Schedule of Financial Audit Findings. We did not audit OUSD's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Members of the Board of Education, Members of the Measure "B" Independent Citizens' School Facilities Bond Oversight Committee, and management of the Oakland Unified School District, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Yano Accountancy Corporation". The signature is written in a cursive, flowing style.

Oakland, California
June 5, 2013

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL AUDIT FINDINGS
June 30, 2012**

Finding 2012-01 –Investment Income on Unexpended Bond Proceeds

Criteria	<p>The Official Statement for the Series 2006 bonds, Official Statement for the Series 2009 A-C bonds and Official Statement for the Series 2012 A-B bonds, all include the following:</p> <p style="padding-left: 40px;">“The proceeds from the sale of the Bonds (net of premium, if any) will be deposited in the County treasury to the credit of the Building Fund of the District. Any premium or accrued interest received will be deposited in the Interest and Sinking Fund of the District in the County treasury. Earnings on the investment of moneys in either fund will be retained in that fund and used only for the purposes to which that fund may lawfully be applied...”</p> <p style="padding-left: 40px;">“...Moneys in the Building Fund may only be applied for the purposes for which the Bonds were approved...”</p>
Observations	<p>OUSD loaned \$26,500,000 of Measure B funds from the Building Fund (an interest-bearing fund) to other funds as of June 30, 2010. The principal amount of the loans was paid back to the Building Fund in October and November 2010. However, interest on these loans has not been paid back to the Building Fund as of March 31, 2013.</p> <p>OUSD’s interest income allocation to Measure B for the year ended June 30, 2012 was \$7,190. When we brought this to OUSD’s attention, OUSD then calculated total interest that should have been credited to Measure B of \$263,416, which is \$256,226 greater than the amount actually credited.</p>
Cause	<p>The cause is inadequate internal controls over accurate allocation of interest income to unexpended OUSD proceeds.</p>
Effect	<p>With respect to the \$26,500,000 borrowed by the general fund, OUSD would have earned total interest of \$58,668 through June 30, 2012 had moneys not been loaned to the other funds. Additional interest is due for periods after June 30, 2013 since the interest has not been paid as of March 31, 2013.</p> <p>In addition to the \$58,668 above, OUSD should have been credited with an additional \$256,226 of interest income during the year ended June 30, 2012.</p> <p>Total interest earned on unexpended Measure B proceeds but not credited to Measure B accounts as of June 30, 2012 was \$314,894.</p>
Recommendation 2012-01	<p>We recommend that OUSD transfer the \$314,894 of interest earned as of June 30, 2012 to Measure B accounts. In addition, we also recommend that OUSD implement controls to ensure the accurate and timely crediting of interest on unexpended Measure B proceeds.</p>

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL AUDIT FINDINGS, CONTINUED
June 30, 2012**

Views of OUSD Management OUSD has calculated all interest to be credited to Measure B bond issuances through June 30, 2012, and calculated all additional interest to be credited through March 31, 2013. These amounts will be recorded no later than June 30, 2013.

Finding 2012-02 – Estimates Included In Expenditures

Criteria Measure B includes the following on allowable uses of proceeds:

“...Proceeds from the sale of bonds authorized by Measure B may be used only for the listed projects consisting of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities; they may not be used for any other purpose...”

Observation The following is a summary of expenditures by site and project for which OUSD was unable to provide adequate support:

Site	Project	Total Without Adequate Support
Washington Small Schools	Washington MSRB	\$ 893,502
Calvin Simmons Middle School	Improvements	170,295
La Escuelita Elementary School	Downtown Educational Campus	210,554
		\$ 1,274,351

Cause The cause of the observation is inadequate internal controls over the development of estimates for financial reporting purposes.

Effect The effect was to overstate expenditures for the year ended June 30, 2012 by \$1,274,351. We proposed, and OUSD agreed with, audit adjustments to reduce project expenditures for the year ended June 30, 2012 by this amount.

Recommendation 2012-03 We recommend that OUSD only include those estimates in the schedule of expenditures that are adequately supported.

OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL AUDIT FINDINGS, CONTINUED
June 30, 2012

Views of OUSD Management

The estimates for accruals were developed by the project managers associated with the project. They used the unencumbered amount remaining on of each vendor's purchase order and estimated the amount of the next invoice if that information could not be provided by the vendor. This information was summarized on a spreadsheet by the accounting staff with the appropriate accounting code information and sent to the accounts payable department to be accrued. The majority of the invoices related to construction are "time and material" based. There is no pattern or consistency of billing to allow an accurate forecast of services and materials provided and not yet invoiced.

Going forward the process will be to provide each vendor with a deadline for billing goods and services provided in FY 2013. Any invoice that we have in hand or have knowledge of that cannot be paid by FY 2012 cutoff date will be added to the accrual list. Any invoice or goods and services provided in FY 2013 but not submitted for payment until FY 2014 will be summarized on a separate spreadsheet for FY2012 year-end adjustment purposes. We have the accrual spreadsheets for FY 2012 as documentation for your review. OUSD fiscal services will adjust the FY 2012 capital expenditures to reflect the over accrued amounts.

Finding 2012-03 – Timeliness of Construction Contract Invoice Processing

Criteria OUSD Administrative Regulation ("AR") 3314 requires that the "...Superintendent or Deputy Superintendent of Business shall ensure that requests for progress payments related to construction contracts are processed and paid within 30 days..."

Observation Prior-year testing of timeliness of payments identified a number of construction progress payments that were not paid within 30-days of submission as required by AR 3314. OUSD management prepared a flowchart of the construction progress payment review and approval process, and presented the flowchart to the Oversight Committee at its September 28, 2012 meeting. The flowchart shows a 21-26 working day timeline for processing construction progress payments. Any progress payments that take more than 22 working days to process will not be processed within the 30-day limit required by AR 3314. OUSD holidays can cause payments not to be processed within 30 days even for those invoices that can be processed in 21 or 22 business days.

Cause There are several causes of non-compliance. We analyzed the flowchart presented to the Oversight Committee, and noted that control activities performed by the Project Manager, Labor Compliance Officer and Bid Coordinator were performed during the 21-26 day processing period. Our experience with several other public agencies has been that these control activities are often completed prior to contractor submission of progress payment requests. Having these control activities performed prior to contractor submission of progress payment requests can reduce the number of business days required to process payment requests after official receipt by 7 to 11 business days.

OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL AUDIT FINDINGS, CONTINUED
June 30, 2012

We also note that the County disburses OUSD accounts payable payments every other week. Accordingly, there could be up to a 14-day delay in payment, depending on the timing of approvals in relation to the bi-weekly disbursement schedule.

Effect	Non-compliance with AR 3314 could result in late payment fees due to contractors.
Recommendation 2012-03	We recommend that OUSD management periodically re-review its invoice payment procedure to see whether additional approvals can be performed prior to official invoice submission, thus reducing processing time of invoices and increasing the practicability of compliance with AR 3314.
Views of OUSD Management	In addition to the invoice payment process changes listed in the FY 2011 audit the Facilities accounting department has implemented a new invoice tracking system that utilizes bar code scanning. Upon receipt each invoice has a bar code attached that is used to track its movement and time spent as it goes thru the invoice approval process. The tracking system also generates reports for management to show the total time needed to approve each invoice. This will help identify problems in the invoice payment process that can be addressed for improvement.

Nano Accountancy Corporation

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Report of Independent Auditors on the Performance Audit

Honorable Members of the Board of Education
and Members of the Measure “B” Independent Citizens’
School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the Schedule of Bond Measure B Revenues and Expenses, a fund of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2012, and have issued our report thereon dated June 5, 2013, which included an explanatory paragraph describing the basis of accounting and the presentation of the financial schedule. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2013 on our consideration of OUSD’s internal control over financial reporting as it pertains to the District and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

We also have performed a performance audit of the expenditures of Measure B bond proceeds for the year ended June 30, 2012. Oakland Unified School District (“OUSD”) management is responsible for ensuring that Measure B bond proceeds, including related earnings on unexpended bond proceeds, are accounted for and expended only in accordance with the proposition approved by the voters. OUSD management is also responsible for establishing and maintaining adequate internal controls over Measure B bond proceeds and expenditures to ensure that bond proceeds are accounted for and expended only in accordance with the proposition approved by the voters. Our responsibility is to perform an audit to evaluate OUSD’s: 1) compliance with Measure B to ensure that Measure B bond proceeds have been expended only on the school facilities projects specified in the Measure B legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background, and Scope, Objectives and Methodology

Relevant background information, and the scope, objectives and methodology applicable to this performance audit are included in the Appendix.

Performance Audit Findings

The accompanying Schedule of Performance Audit Findings incorporates by reference Findings 2012-01 through 2012-03, which is described in the Schedule of Financial Audit Findings. In addition, we requested the views of OUSD management for Findings 2012-04 and 2012-05, which are described in the Schedule of Financial Audit Findings.

OUSD's responses to the findings identified in our audit are described in the accompanying Schedule of Performance Audit Findings. We did not audit OUSD's responses to Findings 2012-01 to 2012-05.

In addition, the Schedule of Performance Audit Findings includes a summary of test results for which no response by OUSD is required.

Conclusion

Based upon the performance audit procedures performed and the results obtained, we have met our audit objectives. We have evaluated OUSD's: 1) compliance to ensure that Measure B bond proceeds have been expended only on the school facilities projects specified in the Measure B legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

Limitations and Restrictions

The terms of our engagement did not provide for reporting on events and transactions that occurred subsequent to the date of our report. Accordingly, we accept no responsibility to update or review this report for any such events or transactions. We also did not verify the accuracy of any of the views of OUSD management. This report relates only to those matters related to Measure B revenues and expenditures for the fiscal year ended June 30, 2012 and does not extend to any financial or performance audit reports pertaining to the Oakland Unified School District taken as a whole.

This report is intended solely for the information and use of the Members of the Board of Education, Members of the Measure "B" Independent Citizens' School Facilities Bond Oversight Committee, and management of the Oakland Unified School District, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Yano Accountancy Corporation". The signature is written in a cursive, flowing style.

Oakland, California
June 5, 2013

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF PERFORMANCE AUDIT FINDINGS
June 30, 2012**

FINDINGS IN WHICH VIEWS OF OUSD MANAGEMENT WERE REQUESTED

Findings 2012-01 through 2012-03 are described in the Schedule of Financial Audit Findings. These findings, and views of OUSD management, are incorporated into the Schedule of Performance Audit Findings by reference.

Finding 2012-04 – Conflicts of Interest

Criteria	<p>OUSD’s current revision of its Conflict of Interest Code (“Code”) became effective on October 1, 2010. Code Section Four, modeled after Government Code (“GC”) GC 87302(b), requires certain employees to file statement of economic interests (Form 700). This includes designated employees who “...make or participate in the making of decisions which may foreseeably have a material affect on economic interests...”</p> <p>Separately, Code Section Nine specifies those situations in which designated employees are disqualified from influencing the “...making of any governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally...” on the individual, the individual’s immediate family (as defined by the Code), or on the specified income, business and/or property interests. “Governmental decisions” include but are not limited to, “vendor” (including contractors and consultants) selection; and any aspect of monitoring or approving vendor performance or payment approval process.</p> <p>Best practices include the obtaining signed statements on a periodic basis from employees stating that they have read, understood, have complied with and will continue to comply with organization’s conflict of interest policies, rules or code. For organizations that require their employees to attend periodic training sessions, these statements are often completed promptly after completion of the training.</p>
Observation	<p>OUSD has designed a conflict-of-interest form for designated OUSD Facilities and vendor personnel to complete, sign and return. However, the designated personnel have not completed, signed and returned the conflict-of-interest forms.</p>
Cause	<p>The cause is a deficiency in controls to ensure proper completion of the forms.</p>
Effect	<p>There are additional risks of improper use of Measure B proceeds due to conflicts of interest.</p>
Recommendation 2012-04	<p>We recommend that OUSD ensure that all designated personnel complete, sign and return the conflict-of-interest forms.</p>
Views of OUSD Management	<p>We agree with the finding. OUSD obtained 35 out of 41 requested conflict-of-interest forms in 2013. The remaining six staff are not presently available to sign the form; however we expect to obtain their completed forms by June 30, 2013.</p>

**OAKLAND UNIFIED SCHOOL DISTRICT
PERFORMANCE AUDIT FINDINGS, Continued
June 30, 2012**

Finding 2012-05 – Excluded Contractors

Criteria California Public Contract Code (“PCC”) 6109 does “...not permit a contractor or subcontractor who is ineligible to bid or work on, or be awarded, a public works project...” However, PCC 6109 is silent on various scenarios that could occur. Federal regulations, even if not written into California law, often provide best practices in such scenarios.

For example, 48 CFR 9.405-1(a) specifies actions to be taken when contractors or principals are debarred, suspended or otherwise excluded (together referred to as “excluded”) after contract award. Awarding agencies “...may continue contracts or subcontracts in existence at the time the party was debarred, suspended, or proposed for debarment unless the agency head directs otherwise. A decision as to the type of termination action, if any, to be taken should be made only after review by agency contracting and technical personnel and by counsel to ensure the propriety of the proposed action.” 48 CFR 9.405-1(b) promulgates that agencies may not “...add new work, exercise options, or otherwise extend the duration of current contracts or orders...” unless the agency head makes a compelling reason for doing so. Executive Order 12549 states that with respect to allowing contracts or change orders with excluded parties, the intent is that “...exceptions to this policy should be granted only infrequently.”

48 CFR 52.209-5 has specific wording on vendor responsibility matters that must be included in contracts with Federal agencies. This wording covers not only the organization, but also its principals. Numerous state and local agencies (particularly those with direct or pass-through Federal awards) include similar wording in their contracts and purchase orders. The California Department of Transportation (“Caltrans”) also requires similar wording in local agency contracts with Caltrans funding.

Although expenditures of Measure B funds need not necessarily comply with all Federal regulations, we believe that Federal, state and local regulations that prohibit the award of contracts to excluded parties represent best procurement practices for all government agencies.

Observation OUSD has implemented procedures in which prospective contractors and vendors have their company names input into the Excluded Parties List System (“EPLS”), which is a national database of excluded parties. However, the current policies and procedures do not include the input of names of company principals into the EPLS. In addition, contractors and vendors are not checked for inclusion in the EPLS when contract changes are executed.

Cause The cause is a deficiency in the design in internal controls over ensuring that contractors and vendors are not excluded from public contracts.

**OAKLAND UNIFIED SCHOOL DISTRICT
PERFORMANCE AUDIT FINDINGS, Continued
June 30, 2012**

Effect	This results in an increased possibility of contracting with an excluded party. A contract with an excluded party is deemed null and void under California law, and the excluded party is not entitled to any payments for work performed. The difficulty arises in attempting to recover payments made to the excluded party.
Recommendation 2012-05	We recommend that OUSD Facilities modify its contracting procedures to require wording at least similar to 48 CFR 52.209-5 on all contracts and purchase orders (which includes change orders and purchase order amendments).
Views of OUSD Management	OUSD Facilities is currently including in our construction bidding process document #00-52-14 which addresses the question of debarment and suspension in construction contracts over \$25,000. This document is signed by the bidder and is included in the final construction contract. Going forward, OUSD Facilities will also include a similar document for vendor signature in professional services contract. When this signed debarment/suspension document is included in the original contract all subsequent Purchase Orders, Change Orders and amendments to change orders pertaining to that contract will be covered under the same debarment and suspension provisions.

FINDINGS THAT DO NOT REQUIRE THE VIEWS OF OUSD MANAGEMENT

The evaluation of OUSD's procurement policies and procedures during the performance audit for the year ended June 30, 2010 by other auditors included a determination that such policies and procedures complied with state laws. Accordingly, our procedures focused on OUSD's compliance with its policies and procedures, and internal controls to facilitate continued compliance.

Our procedures in the following areas did not identify any noncompliance, and no deficiencies in internal control, that we consider significant in the context of our audit objectives. Because we tested less than 100% of transactions, we may not detect all instances of noncompliance or deficiencies in internal control that are significant to the audit objectives.

- Our non-labor testing included 12 construction contracts of \$15,000 or more. Our evaluation of the bids disclosed no instances of noncompliance with OUSD policies, and found that all contracts were awarded to the lowest responsible and responsive bidder. In addition, we found that the Board approved all contracts and change orders.
- Our testing of non-labor expenditures included ten different non-construction contracts. We found no instances of non-compliance with OUSD procurement policies and procedures.

**OAKLAND UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINANCIAL
AND PERFORMANCE AUDIT RECOMMENDATIONS**

As part of our financial and performance audit, we followed up on recommendations included the performance and fiscal audit for the year ended June 30, 2011.

Recommendation 2011-01

We recommend that the General Fund transfer \$57,460, plus interest earned after June 30, 2011 to the Building Fund for the interest that would have been earned on the investment of Measure B proceeds had such proceeds not been loaned to the other funds.

Views of OUSD Management

We agree with the finding, and will make arrangements to pay all interest due to the Building Fund on the borrowings of Measure B funds.

OUSD Current Status

Fiscal Services has been contacted to initiate a transfer of \$57,460 to the Measure B fund.

Auditor Comment

The interest due as of June 30, 2011 has not been paid as of March 31, 2013. Additional interest has accrued from June 30, 2011 because of compounding and will continue to accrue until paid. See Finding 2012-01.

Recommendation 2011-02

We recommend that OUSD specifically identify unexpended Measure B funds with the County, so that interest income on unexpended Measure B funds can be calculated separately. Alternatively, we recommend that OUSD implement policies and procedures to ensure that an accurate interest apportionment is calculated on a timely basis.

Views of OUSD Management

We agree with the finding, and will make arrangements to ensure that Building Fund interest is apportioned to the correct bond measures in the future.

OUSD Current Status

The OUSD Fiscal Services Department is currently calculating FY 2012 Measure B Fund interest payments.

Auditor Comment

The interest calculations for the year ended June 30, 2012 is not complete as of March 31, 2013, the normal statutory deadline for issuing the performance and fiscal audit report. Accordingly, OUSD has inadequate controls over the timely calculation of interest. See Finding 2012-01.

**OAKLAND UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINANCIAL
AND PERFORMANCE AUDIT RECOMMENDATIONS, Continued**

Recommendation 2011-03

We recommend that OUSD evaluate its current policies and implemented procedures to ensure that all invoices are subjected to appropriate checking for mathematical accuracy.

Views of OUSD Management

Current policy and procedure will be revised to include a check of vendor submitted retention invoices by Project managers and facilities accounting to verify that the amounts/percentages are correct. Project managers already meet with vendor to review vendor invoice amounts prior to submission to the facilities accounts payable department. This procedure will be formalized.

OUSD Current Status

The Facilities Accounts Payable Clerk was instructed to calculate escrow payments based on new 5% payment rule as of January 2013 and adjust total escrow payments to this percentage.

Auditor Comment

Since our audit was for the year ended June 30, 2012, we did not test whether this new procedure was implemented. Our testing for the year ended June 30, 2012 did not identify any mathematical errors.

Recommendation 2011-04

We recommend that OUSD implement appropriate controls to ensure that OUSD Facilities employees involved in making government decisions have an adequate understanding of the OUSD's Conflict of Interest Code ("Code"), and have verified their past and continuing compliance with the Code. We also recommend that OUSD require vendors involved in governmental decisions to implement appropriate controls to facilitate compliance with the applicable sections of the Code.

Views of OUSD Management

OUSD legal counsel has designed a conflict-of-interest form to be signed by all applicable OUSD and consultant employees. The Assistant Superintendent – Facilities will be responsible for identifying which OUSD employees must complete and sign the form. Project managers will be responsible for identifying which consultant employees must complete and sign the form.

OUSD Current Status

The conflict of interest forms has been created and will be distributed for signing to designated consultants and staffs this fiscal year.

Auditor Comment

Because implementation of this recommendation is not complete, it is a repeat finding. See Finding 2012-04.

**OAKLAND UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINANCIAL
AND PERFORMANCE AUDIT RECOMMENDATIONS, Continued**

Recommendation 2011-05

We recommend that OUSD Facilities modify its contracting procedures to require wording at least similar to 48 CFR 52.209-5 on all contracts and purchase orders (which includes change orders and purchase order amendments). We also recommend that OUSD perform an excluded parties search at <http://www.epls.gov> or other similar website concurrently with the execution of all contracts and purchase orders. The results of this search should be documented (e.g., printed out) and approved.

Views of OUSD Management

The OUSD facilities department will modify/amend its current contracts to include wording that is similar to 48 CFR 52.209-5 including change orders and purchase order amendments. Specifically this wording will address vendors and their principals' responsibilities and actions that must be taken when contractors or principals are debarred, suspended or otherwise excluded after contract award.

OUSD Current Status

We are planning to create a statement that vendors will have to sign stating that they and their associated sub-contractors are not on the excluded parties list.

Auditor Comment

Because implementation of this recommendation is not complete, it is a repeat finding. See Finding 2012-05.

Recommendation 2011-06

We recommend that OUSD management evaluate the order (and related timing) in which invoice review and approval tasks are performed to see if compliance with AR 3314 is practicable. We also recommend, as part of this evaluation and to the extent practicable, that OUSD management document the costs of compliance vs. the costs of continuing current practices.

Views of OUSD Management

Facilities management completed an extensive review of the invoice payment procedure last year. The recommendations that resulted in that review is that reducing management oversight (approvals) would help reduce processing time with no associated cost at the Facilities department level. However the other recommendation would be to increase the number of monthly check runs at the central accounts payable office to more than twice per month. This would add additional costs for OUSD central office accounts payable department and the Alameda County Office of Education as well because of additional costs associated with more check runs.

OUSD Facilities management has already made several changes in the invoice processing process to facilitate faster payment such as:

- Directing project management not to accept invoices given to them by hand but to instruct vendors to send payments only to our facilities department address for processing.

**OAKLAND UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINANCIAL
AND PERFORMANCE AUDIT RECOMMENDATIONS, Continued**

- Project managers have been instructed to return invoices to vendors if issues prevent their approval in seven days.
- The accounts payable clerk will log in all invoices as they come to her desk so as to track the number of days they remain outstanding.
- When possible project managers will be encouraged to review invoices with vendors prior to formally submitting them for payment. All pay applications will be reviewed by the project manager before submission for payment.

OUSD Current Status

A new invoice tracking system has been implemented in additions to the changes listed above. This system provides status of all invoices being processed in the system at any time.

Auditor Comment

We did note fewer late payments in FY 2012, and the maximum number of days late for any payment was also reduced. Because our testing for the year ended June 30, 2012 did find some instances of non-compliance, this is a repeat comment. See Finding 2012-03.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURE B PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY

Appendix

BACKGROUND

The voters of Oakland, California passed School Facilities Bond of 2006 (also known as “Measure B”) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278, authorizing the issuance of up to \$435,000,000 of Measure B bonds for school renovation, modernization and new construction. The following excerpt from Measure B summarizes the purpose of the bonds:

“...The purpose of the bonds is to finance the repair, modernization and construction projects specified in the measure’s Bond Project List for the District elementary schools, middle schools, high schools and pre-schools. Proceeds from the sale of bonds authorized by Measure B may be used only for the listed projects consisting of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities; they may not be used for any other purpose...”

MEASURE B PERFORMANCE AUDIT REQUIREMENTS

Measure B legislation requires “...an annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects listed in Exhibit A.”

We performed our performance for the year ended June 30, 2012 to comply with the Measure B audit requirements in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

ROLE OF THE INDEPENDENT CITIZENS’ OVERSIGHT COMMITTEE

Measure B requires establishment of an independent Citizens’ Oversight committee (“Oversight Committee”) “...to ensure bond proceeds are spent only for the school facilities projects listed in Exhibit A...” Our performance and fiscal audit report assists the Oversight Committee in accomplishing its mandated responsibilities.

USE OF MEASURE B BOND PROCEEDS

Bond proceeds have been expended on 111 different school renovation, modernization and new construction projects. Of the 117 projects, 8 are in pre-design, 21 are in design, 19 are in construction, 45 are in the close-out process and 24 projects are complete. The total approved budget for the 111 projects was \$431,357,413 (unaudited).

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURE B PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued

Appendix

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objectives and scope of our performance and fiscal audit of the Measure B school bond renovation, modernization, and building program were to: 1) obtain reasonable assurance on whether Measure B funds were expended only for purposes described in the bond measure; 2) assess OUSD's Measure B procurement policies and procedures for compliance with California law; 3) assess the adequacy of internal controls over Measure B procurement, change orders and invoice review and approval processes; 4) assess that adequate controls are in place for timely payment of bond program obligations; and 5) identify alternatives that could achieve Bond Program goals and objectives more effectively and efficiently. Our performance audit only addressed matters relating to OUSD's Measure B expenditures for the fiscal year ended June 30, 2012 and does not extend to any financial or performance audit reports pertaining to other OUSD funds or programs, or to OUSD taken as a whole.

The following methodology was used to accomplish our performance audit objectives:

1. Met with OUSD Measure B Program officials to obtain an understanding of the Measure B renovation, modernization and construction program, including policies and procedures for project management, procurement, change orders, prevailing wage compliance monitoring, and invoice processing.
2. Evaluated OUSD's policies, procedures for Measure B projects procurement, change orders and invoice processing, and related internal controls, to determine whether policies and procedures were consistent with applicable California laws and Measure B provisions.
3. Evaluated internal controls over Measure B procurement, change orders and invoice processing to assess their ability to provide reasonable assurance of compliance with the applicable California laws and Measure B provisions.
4. Evaluated high-dollar expenditures, plus a random sample of all other expenditures for the year ended June 30, 2012 to obtain reasonable assurance on whether those expenditures were made only for purposes described in the bond, for valid obligations, and in accordance with contract provisions.
5. Verified that OUSD had a program to monitor contractor compliance with State prevailing wage requirements.

In addition, we conducted a financial audit of the Schedule of Measure B Revenues and Expenditures for the year ended June 30, 2012. We conducted this financial audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In accordance with generally accepted government auditing standards, we considered the results of previously issued reports, including follow-up on prior year performance and fiscal audit recommendations.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURE B PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued

Appendix

SELECTION OF EXPENDITURES FOR TESTING

OUSD management provided us with a database of expenditures, which we reconciled to total reported expenditures of \$91,843,406. We analyzed the database of expenditures to achieve a testing strategy that would test 100% of the high-dollar expenditures (either individually or cumulatively) and test a representative sample of all other expenditures. The following summarizes the results of our analyses of payments:

	Number of Items	Total Dollar Amount
High-dollar items:		
Two contractors, three projects	47	\$ 42,062,958
Other high-dollar items (≥\$400,000)	4	2,884,291
Total high-dollar items	51	44,947,249
Items subject to random sampling	2,731	46,895,631
Items <\$125 excluded from testing	548	18,520
Negative amounts excluded from testing	45	(17,994)
Net zero items	348	-
Grand total	3,723	\$ 91,843,406

Expenditures to two vendors (contractors) on three projects totaled \$42,062,958, or 45.80% of total reported expenditures. Because payment applications are cumulative, we selected the last payment applications on these seven projects for these two vendors for the years ended June 30, 2012 and June 30, 2011. The difference between the cumulative totals represents expenditures for the year ended June 30, 2012. We also tested other high-dollar items with absolute values of greater than \$1 million. We used computer-based monetary unit sampling (“MUS”), a type of random sampling frequently used in both financial and performance audits, to select 56 non-high-dollar items for testing.

We excluded the following from testing: 1) 174 items with matching credit amounts (348 total line items), since the net dollar amount of these items was zero; 2) all positive amounts of less than \$125; and 3) all negative amounts with an absolute value of \$4,400 or less.

The following summarizes expenditures selected for testing:

	Number of Items	Total Dollar Amount
High-dollar items	10	\$ 44,947,249
Monetary unit sampling selection	56	10,178,402
	66	\$ 55,125,651

The items selected for testing included two journal entries for OUSD administrative expenditures. The total amount tested was 60.02% of total current year expenditures.