

# *Yano Accountancy Corporation*

Litigation and Financial Consulting • Forensic Accounting  
Certified Public Accountants

May 13, 2015

Honorable Members of the Board of Education  
and Members of the Measure "B" and "J" Independent  
Citizens' School Facilities Bond Oversight Committee  
Oakland Unified School District  
Oakland, California

We have audited the Combined Schedule of Measure B and Measure J Revenues, Expenditures and Changes in Fund Balances ("financial schedule") of the Oakland Unified School District ("OUSD") for the year ended June 30, 2014, and have issued our report thereon dated May 13, 2015. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibilities With Regard to the Financial Statement Audit**

We are responsible for forming and expressing an opinion about whether the OUSD's financial schedule that has been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Please note that an audit of the OUSD's financial schedule does not relieve management, Members of the Board of Education and Members of the Measure "B" and "J" Independent Citizens' School Facilities Bond Oversight Committee of their responsibilities.

## **Planned Scope and Timing of the Audit**

Our planned scope focuses on areas in which actual and/or perceived risk of material misstatements could occur, and to perform audit procedures to respond to these risks. We have addressed these risks as part of our auditing procedures.

As indicated above, we consider the OUSD's internal control over financial reporting in determining the nature, extent and timing of auditing procedures, including whether such consideration is both effective and efficient in the performance of our audit. Also, as indicated above, since our consideration of internal control is solely for the purpose of determining our auditing procedures, and not to provide any assurance concerning such internal control, we may not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We consider both quantitative and qualitative aspects of materiality when planning and performing our audit procedures. As required by professional standards, we establish a quantitative planning materiality prior to the commencement of our fieldwork, and we refer to our planning materiality when evaluating the results of our substantive audit procedures. We also apply judgment in evaluating the appropriateness of significant estimates and in evaluating the adequacy and appropriateness of financial statement presentation and related disclosures.

We communicated the planned timing of our field work to OUSD management in February 2015.

Honorable Members of the Board of Education  
and Members of the Measure "B" and "J" Independent  
Citizens' School Facilities Bond Oversight Committee  
Oakland Unified School District  
May 13, 2015 – Page 2

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the OUSD are described in Note 2 of Notes to the financial schedule. We noted no transactions entered into by the OUSD during the years that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which the accounting treatment is not the most appropriate under the circumstances.

### **Recently Issued Accounting Pronouncements**

There were no recently issued accounting pronouncements that we believe would have a significant impact on the OUSD's accounting and financial disclosure.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial schedule prepared by management and are based on management's knowledge and experience about past and current events. Certain accounting estimates are particularly sensitive because of their significance to the financial schedule and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial schedule that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the OUSD's financial reporting process (that is, cause future financial schedule to be materially misstated).

We proposed, and management agreed with, our proposed adjustments to:

1. Restate (i.e., reduce) the beginning fund balance by \$13,247,638 for Measure B expenditures incurred during the fiscal years ended June 30, 2009-2013 that were improperly reflected as Measure A expenditures.
2. Correct the allocation of current year interest income from Measure A to Measure J, which resulted in an increase of allocated interest income of \$265,252 to Measure J.

Honorable Members of the Board of Education  
and Members of the Measure "B" and "J" Independent  
Citizens' School Facilities Bond Oversight Committee  
Oakland Unified School District  
May 13, 2015 – Page 3

### **Internal Control Over Financial Reporting**

As part of our audit, we considered internal control relevant to the OUSD's preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedule will not be prevented, or detected and corrected on a timely basis.

The audit adjustments described previously were a result of OUSD's inability to properly allocate interest income since the year ended June 30, 2007. This, in turn, caused OUSD to classify Measure B-funded expenditures as Measure A expenditures.

### **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 did not express such an opinion.

OUSD management previously reported to those charged with governance that, because of the need for adequate internal controls over proper review and approval of construction contractor invoices, it was having difficulty complying with California regulations and OUSD policy to pay such invoices within 30 days of submission. We found two instances of noncompliance prior to December 31, 2013, and found no further instances of noncompliance.

### **Nonaudit Services Provided by Our Firm**

We provided no nonaudit services to OUSD.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial schedule or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audits.

Honorable Members of the Board of Education  
and Members of the Measure "B" and "J" Independent  
Citizens' School Facilities Bond Oversight Committee  
Oakland Unified School District  
May 13, 2015 – Page 4

**Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the OUSD's auditors. However, these discussions occurred in the normal course of our professional relationship and the responses were not a condition of our retention.

**Representations to be Provided by Management**

We requested certain representations from management, all of which were provided to us in a letter dated May 13, 2015.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties dealing with management in performing our audit.

. . . . .

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

Very truly yours,

*Jano Accountancy Corporation*

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

**for the year ended June 30, 2014**

*Yano Accountancy Corporation*

**OAKLAND UNIFIED SCHOOL DISTRICT  
FINANCIAL AND PERFORMANCE AUDITS OF  
BOND MEASURE B PROJECT BUDGETS AND EXPENDITURES  
TABLE OF CONTENTS**

---

|   | <u>Page(s)</u> |
|---|----------------|
| <b><u>Financial Audit Section</u></b>   |                |
| Report of Independent Auditors<br>on the Financial Audit  | 1-3            |
| Combined Schedule of Bond Measures B and J<br>Revenues, Expenditures and Changes in Fund<br>Balances for the year ended June 30, 2014   | 4              |
| Notes to Combined Schedule of Bond Measures<br>B and J Revenues, Expenditures and Changes in<br>Fund Balances for the year ended June 30, 2014  | 5-7            |
| Combined Supplementary Schedule of Bond<br>Measures B and J Expenditures by Project<br>for the year ended June 30, 2014   | 8-9            |
| Report of Independent Auditors on Internal<br>Control over Financial Reporting and on<br>Compliance and Other Matters Based on an<br>Audit of a Financial Schedule Performed in<br>Accordance with <i>Government Auditing Standards</i> | 10-11          |
| Schedule of Financial Audit Findings  | 12-13          |
| <b><u>Performance Audit Section</u></b>   |                |
| Report of Independent Auditors<br>on the Performance Audit  | 14-15          |
| Schedule of Performance Audit Findings  | 16             |
| <b><u>Status of Prior Year Recommendations</u></b>  |                |
| Status of Prior Year Recommendations  | 17-18          |
| <b><u>Appendix – Performance Audit Information</u></b>  |                |
| Background  | 19-20          |
| Objectives, Scope and Methodology   | 20-24          |

# *Nano Accountancy Corporation*

Litigation and Financial Consulting • Forensic Accounting  
Certified Public Accountants

## **Report of Independent Auditors on the Financial Audit**

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

### **Report on the Financial Schedule**

We have audited the accompanying Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances, funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2014, and the related notes (the “financial schedule”).

### **Management’s Responsibility for the Financial Schedule**

Management is responsible for the preparation and fair presentation of this financial schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial schedule that is free from material misstatement, whether due to fraud or error.

### **Auditors’ Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OUSD’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, after correction of the Bond Measure B fund balance as of July 1, 2013, the financial schedule referred to above present fairly, in all material respects, the combined Bond Measures B and J revenues, expenditures and changes in fund balances for the year ended June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

## **Adjustment of Bond Measure B Fund Balance as of July 1, 2013**

We draw attention to Note 3 of the financial schedule, which describes adjustments to the Bond Measure B fund balance as of July 1, 2013. OUSD reduced the fund balance as of July 1, 2013 from \$41,258,252 by \$13,247,638 to \$28,010,484 to reflect corrections of misstatements for the years ended June 30, 2007-2013. Our opinion is not modified with respect to this matter.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial schedule as a whole. The combined supplementary schedule of Bond Measures B and J 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 schedule. The information has been subjected to the auditing procedures applied in the audit of the financial schedule and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial schedule or to the financial schedule themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial schedule as a whole.

## **Relationship of Bond Measures B and J Revenues and Expenditures to Total OUSD Revenues and Expenditures**

We draw attention to Note 2 of the financial schedule, which describes that the accompanying financial schedule presents only the revenues and expenditures of Bond Measures B and J activities and is not intended to present a complete presentation of the revenues and expenditures of the OUSD for the year ended June 30, 2014. Our opinion is not modified with respect to this matter.



### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2015 on our consideration of the OUSD's internal control over financial reporting pertaining to Bond Measures B and J, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters pertaining to Bond Measures B and J. 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 internal control over financial reporting or on compliance pertaining to Bond Measures B and J. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSD's internal control over financial reporting and compliance.

*Nano Accountancy Corporation*

Oakland, California  
May 13, 2015

**OAKLAND UNIFIED SCHOOL DISTRICT  
COMBINED SCHEDULE OF BOND MEASURES B AND J  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
for the year ended June 30, 2014**

|  | <u>Measure B</u>     | <u>Measure J</u>      | <u>Total</u>          |
|--|----------------------|-----------------------|-----------------------|
| <b>Revenues, net:</b>  |                      |                       |                       |
| Net bond proceeds:   |                      |                       |                       |
| Par value of bonds issued  | \$ -                 | \$ 120,000,000        | \$ 120,000,000        |
| Bond premiums  | -                    | 3,920,196             | 3,920,196             |
| Deposits to interest<br>and sinking fund                                 | -                    | (2,584,085)           | (2,584,085)           |
| Underwriter's discounts  | -                    | (836,111)             | (836,111)             |
| Costs of issuance  | -                    | (500,000)             | (500,000)             |
|  | <u>-</u>             | <u>120,000,000</u>    | <u>120,000,000</u>    |
| Interest earnings on<br>unexpended proceeds                              | <u>46,217</u>        | <u>265,252</u>        | <u>311,469</u>        |
| <b>Total revenues, net</b>   | <u>-</u>             | <u>120,265,252</u>    | <u>120,311,469</u>    |
| <b>Expenditures:</b>   |                      |                       |                       |
| Project expenditures   | 7,062,669            | 9,181,505             | 16,244,174            |
| District staff costs and<br>program consultants                          | <u>8,889,995</u>     | <u>91,884</u>         | <u>8,981,879</u>      |
| <b>Total expenditures</b>  | <u>15,952,664</u>    | <u>9,273,389</u>      | <u>25,226,053</u>     |
| <b>Excess (deficiency) of<br/>revenues over expenditures</b>             | (15,906,447)         | 110,991,863           | 95,085,416            |
| <b>Fund balances</b>   |                      |                       |                       |
| <b>Beginning of the year</b>   |                      |                       |                       |
| As previously reported   | 41,258,122           | -                     | 41,258,122            |
| Adjustment to reflect prior-year<br>expenditures not previously reported | <u>(13,247,638)</u>  | <u>-</u>              | <u>(13,247,638)</u>   |
| <b>As restated</b>   | <u>28,010,484</u>    | <u>-</u>              | <u>28,010,484</u>     |
| <b>End of the year</b>   | <u>\$ 12,104,037</u> | <u>\$ 110,991,863</u> | <u>\$ 123,095,900</u> |

See accompanying notes.

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**for the year ended June 30, 2014**

**1. Description of Reporting Entity**

The voters of Oakland, California passed School Facilities Bond of 2006 and School Facilities Bond of 2013 (also known as “Measure B” and “Measure J”, respectively) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278. Measures B and J authorized the issuance of up to \$435,000,000 and \$475,000,000, respectively, of bonds. The following excerpts from Measures B and J summarize the purposes of the bonds:

**Measure B**

“...To repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs ...”

**Measure J**

“...To improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety...”

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying financial schedule presents only the revenues and expenditures of Measure B and Measure J activities and is not intended to be a complete presentation of the revenues and expenditures of the Oakland Unified School District (“OUSD”).

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

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, Continued**  
**for the year ended June 30, 2014**

**2. Summary of Significant Accounting Policies, Continued**

**Basis of Accounting**

Measure B and Measure J 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.

**Use of Estimates**

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

**3. Adjustment of Beginning of Year Fund Balance – Measure B**

OUSD found that the beginning of year fund balance for Measure B was misstated due to prior year errors in calculating and recording interest earned on unexpended Measure B bond proceeds, and related impacts on classification of expenditures as to their funding sources. The misstatements occurred during the years ended June 30, 2007 through June 30, 2013. Interest income was transferred from Measure A to Measure B. However, the interest earned was expended as Measure A expenditures, and Measure A did not have the available cash to reimburse Measure B. OUSD also found that cumulative interest income for the years ended June 30, 2007-2013 was understated.

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, Continued**  
**for the year ended June 30, 2014**

**3. Adjustment of Beginning of Year Fund Balance – Measure B, Continued**

Accordingly, OUSD adjusted the fund balance as of July 1, 2013 to record additional cumulative interest income; and record additional expenditures as of July 1, 2013. The following summarizes the adjustments to the fund balance as of July 1, 2013:

|  |                              |
|--|------------------------------|
| Additional interest income:  |                              |
| Cumulative interest income as of July 1, 2013                      | \$ 11,989,692                |
| Less cumulative amounts recorded                                   | <u>(11,942,194)</u>          |
| Additional cumulative interest as of July 1, 2013                  | <u>47,498</u>                |
| Transfer of Measure A expenses to Measure B:                       |                              |
| Project expenditures   | (7,429,929)                  |
| District staff   | (2,437,745)                  |
| Consultants and professional services                              | <u>(4,770,586)</u>           |
| Total Measure A expenditures transferred to Measure B              | <u>(14,638,260)</u>          |
| Other adjustments to fund balance                                  | <u>1,343,124</u>             |
| Total adjustments to the Measure B fund balance as of July 1, 2013 | <u><u>\$(13,247,638)</u></u> |

**4. Contingencies**

OUSD receives a number of claims from contractors for extra work, loss of efficiency, acceleration or work and delay. The 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.

**5. Subsequent Events**

All subsequent events have been evaluated through May 13, 2015, the date that the financial schedule was available to be published.

**OAKLAND UNIFIED SCHOOL DISTRICT  
COMBINED SUPPLEMENTARY SCHEDULE OF BOND  
MEASURES B AND J EXPENDITURES BY PROJECT  
for the year ended June 30, 2014**

| Site                                     | Project                                   | Expenditures   |                  |                  |
|--|---|----------------|------------------|------------------|
|  |   | Measure B      | Measure J        | Total            |
| <b>Project expenditures:</b>             |   |                |                  |                  |
| <i>Projects in pre-design:</i>           |   |                |                  |                  |
| Foster                                   | Central Commissary<br>@ Foster E.S.       | \$ -           | \$ 580,099       | \$ 580,099       |
| Glenview                                 | Glenview Rennovation                      | -              | 51,092           | 51,092           |
| Laurel Elementary                        | Intrusion Alarm                           | 3,868          | -                | 3,868            |
| Roosevelt Elementary                     | Modernization                             | 155,137        | -                | 155,137          |
| Washington                               | Washington E.S.<br>Expansion              | -              | 69,780           | 69,780           |
| Whitter                                  | Whitter Expansion                         | -              | 190,656          | 190,656          |
| Whittier                                 | New Building                              | 21,315         | -                | 21,315           |
| <b>Total projects in pre-design</b>      |   | <b>180,320</b> | <b>891,627</b>   | <b>1,071,947</b> |
| <i>Projects in design:</i>               |   |                |                  |                  |
| 955 High Street                          | 955 High Street Paving                    | -              | 157,766          | 157,766          |
| Bella Vista Elementary                   | Fire and Intrusion<br>Alarm Replacement   | 5,683          | -                | 5,683            |
| Elmhurst Middle School                   | Elmhurst Paving<br>project                | -              | 108,409          | 108,409          |
| Joaquin Miller                           | Fire and Intrusion<br>Alarm Replacement   | 6,741          | -                | 6,741            |
| Lafayette Elementary                     | Fire and Intrusion<br>Alarm Replacement   | 227,513        | -                | 227,513          |
| Laurel Elementary                        | CDC Replacement                           | 150,157        | -                | 150,157          |
| Manzanita Elementary                     | CDC Fire Alarm<br>Replacement             | 4,540          | -                | 4,540            |
| McClymods                                | McClymods Small<br>School                 | 3,363          | -                | 3,363            |
| Melrose                                  | Melrose MS Roofing                        | -              | 35,644           | 35,644           |
| Restroom Rennovation                     | Restroom                                  | -              | -                | -                |
| Rusdale                                  | Rusdale HS Roofing                        | -              | 33,103           | 33,103           |
| Sky line High School                     | Sky line High Paving                      | -              | 11,008           | 11,008           |
| <b>Total projects in design</b>          |   | <b>397,997</b> | <b>345,930</b>   | <b>743,927</b>   |
| <i>Projects under construction:</i>      |   |                |                  |                  |
| California Solar Initiative              | California Solar Initiative<br>Fire Alarm | -              | 7,542,192        | 7,542,192        |
| King Estates Schools                     | Replacement                               | 3,760          | -                | 3,760            |
| Montclair                                | New Classroom                             | 524,987        | -                | 524,987          |
| Technology Services                      | E-Rate Facilities                         | -              | 359,449          | 359,449          |
| Piedmont Avenue Elementary               | Fire and Intrusion<br>Alarm Replacement   | 283,951        | -                | 283,951          |
| <b>Total projects under construction</b> |   | <b>812,698</b> | <b>7,901,641</b> | <b>8,714,339</b> |

**OAKLAND UNIFIED SCHOOL DISTRICT  
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B  
EXPENDITURES BY PROJECT, Continued  
for the year ended June 30, 2014**

| Site                                    | Project  | Expenditures         |                     |                      |
|---|--|----------------------|---------------------|----------------------|
|   |  | Measure B            | Measure J           | Total                |
| <b>Project expenditures, continued:</b> |  |                      |                     |                      |
| <i>Projects in close-out:</i>           |  |                      |                     |                      |
| Arroyo Viejo                            | CDC Replacement                                  | (4,453)              | -                   | (4,453)              |
| Cox Elementary                          | Additional Classroom                             | 7,835                | -                   | 7,835                |
| Cox Elementary                          | Modernization/ Small Schools                     | 7,252                | -                   | 7,252                |
| Harriet Tubman                          | CDC Fire Alarm Replacement                       | 190                  | -                   | 190                  |
| Highland                                | Highland Portable                                | -                    | -                   | 70,372               |
| Jefferson Elementary                    | Portable   | 2,432                | -                   | 2,432                |
| La Escuelita Educational Complex        | New Educational Complex                          | 5,091,757            | -                   | 5,091,757            |
| West Oakland                            | Lowell Mod                                       | -                    | -                   | 447,194              |
| West Oakland                            | Lowell Health Clinic Building G Restroom Project | 7,016                | -                   | 7,016                |
| Oakland High                            | Health Center                                    | 2,620                | -                   | 2,620                |
| Oakland High                            | Modernization                                    | (27,161)             | -                   | (27,161)             |
| Piedmont                                | Portable Library                                 | 6,449                | -                   | 6,449                |
| Prescott Small Schools                  | Modernization                                    | 20,890               | -                   | 20,890               |
| Thornhill                               | Custodial Services                               | 2,907                | -                   | 2,907                |
| Thornhill                               | Thornhill waste/sewage                           | -                    | 42,307              | 42,307               |
| Whittier                                | Modernization                                    | 14,300               | -                   | 14,300               |
| <b>Total projects in close-out</b>      |  | <b>5,650,698</b>     | <b>42,307</b>       | <b>5,693,005</b>     |
| <i>Projects completed:</i>              |  |                      |                     |                      |
| King Estates Small Schools              | Small Schools                                    | 454                  | -                   | 454                  |
| Lincoln Elementary                      | Portable Replacement                             | 16,440               | -                   | 16,440               |
| Manzanita Elementary                    | Modernization                                    | 789                  | -                   | 789                  |
| Oakland Tech High School                | Oakland Tech Modernization                       | 3,273                | -                   | 3,273                |
| <b>Total projects completed</b>         |  | <b>20,956</b>        | <b>-</b>            | <b>20,956</b>        |
| <b>Total project expenditures</b>       |  | <b>7,062,669</b>     | <b>9,181,505</b>    | <b>16,244,174</b>    |
| <i>Other expenditures:</i>              |  |                      |                     |                      |
| District staff                          |  | 2,285,830            | 209                 | 2,286,039            |
| Consultants and professional services   |  | 6,604,165            | 91,675              | 6,695,840            |
| <b>Total other expenditures</b>         |  | <b>8,889,995</b>     | <b>91,884</b>       | <b>8,981,879</b>     |
| <b>Total expenditures</b>               |  | <b>\$ 15,952,664</b> | <b>\$ 9,273,389</b> | <b>\$ 25,226,053</b> |

# *Nano Accountancy Corporation*

Litigation and Financial Consulting • Forensic Accounting  
Certified Public Accountants

## **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” and “J” Independent  
Citizens’ School Facilities Bond Oversight Committee  
Oakland Unified School District  
Oakland, California

We have audited the Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances (the “financial schedule”), funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2014, and have issued our report thereon dated May 13, 2015, 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 the OUSD’s internal control over financial reporting as it pertains to Bond Measures B and J 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 the OUSD’s internal control over financial reporting as it pertains to Bond Measures B and J.

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 schedule will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Finding 2014-01 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 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 2014-02 in the accompanying Schedule of Financial Audit Findings.

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

## Restriction on Use

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and other matters, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSD's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

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

Oakland, California  
May 13, 2015

**OAKLAND UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL AUDIT FINDINGS  
June 30, 2014**

**Finding 2014-01 – Prior-Year Interest Income and Expenditures**

**Observations** During the years ended June 30, 2007-2012, OUSD credited all interest income on unexpended bond proceeds to Measures A and C, and none to Measure B. In addition, the allocation of interest earned in 2013 and 2014 did not accurately reflect the unexpended proceeds in Measures B and J.

Our report for the year ended June 30, 2012 and issued in June 2013 reported that OUSD had not made the necessary adjustments to reallocate interest income from Measures A and C to Measure B. Accordingly, interest earned on Measure B unexpended proceeds was treated as Measure A interest income. Expenditures funded by this interest income were treated as Measure A and C expenditures, and not as Measure B expenditures.

**Effects** The use of incorrectly classified Measure B interest income to fund Measure A and C expenditures had multiple effects:

1. There was material non-compliance with requirements of official statements on bond issues, in which Measure B was not given its proportionate share of interest income. As part of the analysis of OUSD's interest income attributable to Measure B unexpended proceeds, it was determined that an additional \$47,498 of cumulative interest income for the years ended June 30, 2007-2013 should have been credited to Measure B.
2. There was material non-compliance with Measure B performance audit requirements because \$14,638,260 of expenditures during the years ended June 30, 2009-2013 were improperly classified as funded by Measures A and C and therefore not subject to the performance audits required by Measure B legislation.
3. A total of \$1,343,124 of other additions to the fund balance in prior years was not reflected in the fund balance as of July 1, 2013.
4. Current-year interest income on Measure J was understated by \$265,252.

**Cause** OUSD did not establish procedures to allocate interest income during the years ended June 30, 2007-2012. When the procedures were established during the year ended June 30, 2013, OUSD did not retroactively apply the adjustments to prior years.

**Recommendation 2014-01** OUSD management should ensure that prior- and current-year interest income on unexpended bond proceeds is properly credited to Measures A and C, Measure B and Measure J, as appropriate. OUSD also should ensure that all future interest income is allocated on a timely basis (i.e., promptly after receiving the interest income from the County).

**OAKLAND UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL AUDIT FINDINGS, CONTINUED  
June 30, 2014**

**Views of OUSD Management** We agree with the finding, and have recorded the required adjustments to the financial statements and underlying books and records.

**Finding 2014-02 – Construction Contract Invoices  
Were Not Processed Within 30 Days of Submission**

**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** Two out of 9 construction invoices tested during the six-month period ended December 31, 2013 were not paid within 30 days as required by AR 3314. All 19 construction invoices tested during the six-month period ended June 30, 2014 were paid within 30 days of receipt.

**Effect** Non-compliance with AR 3314 could result in late payment fees due to contractors.

**Cause** The cause of late processing during the first six months of OUSD’s fiscal year was incomplete implementation of revised procedures to facilitate timely processing of construction invoices.

**Recommendation 2014-02** OUSD should continue to monitor its compliance with AR 3314.

**Views of OUSD Management** We agree with the finding. The auditors have noted that all 19 construction invoices tested after December 31, 2013 were paid within 30 days as required by AR 3314. We believe we now are in full compliance.

# *Nano Accountancy Corporation*

Litigation and Financial Consulting • Forensic Accounting  
Certified Public Accountants

## **Report of Independent Auditors on the Performance Audit**

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

We have audited the Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances, funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2014, and have issued our report thereon dated May 13, 2015, which included explanatory paragraphs on adjustments to the Measure B fund balance as of July 1, 2013, supplementary information, and 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 May 13, 2015 on our consideration of the OUSD’s internal control over financial reporting as it pertains to OUSD 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 bond proceeds from Measures B and J for the year ended June 30, 2014. OUSD management is responsible for ensuring that bond proceeds from Bond Measures B and J, 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 the 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**

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. Measure J legislation requires "...an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List."

The Appendix includes relevant background information, and the scope, objectives and methodology to achieve the performance audit requirements of the Measure B and Measure J legislation.

## **Performance Audit Findings**

The accompanying Schedule of Performance Audit Findings incorporates by reference Findings 2014-01 and 2014-02, which are described in the Schedule of Financial Audit Findings.

OUSD's responses to Findings 2014-01 and 2014-02 are described in the accompanying Schedule of Financial Audit Findings. We did not audit the OUSD's response and, accordingly, we express no opinion on it.

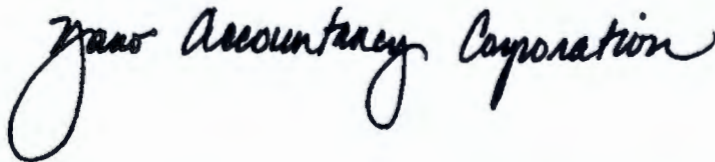
We also highlight that the performance audit for the year ended June 30, 2014 also included tests of expenditures for the years ended June 30, 2009-2013. These expenditures were previously classified as funded by Measure A. As noted in Finding 2014-01, these expenditures were reclassified as Measure B expenditures as of July 1, 2013, and accordingly subjected to performance audit procedures during the year ended June 30, 2014.

## **Conclusion**

Based upon the performance audit procedures performed and the results obtained, we have met our audit objectives. We have evaluated the 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 and Measure J legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

## **Restriction on Use**

The purpose of this performance audit report is solely to ensure that bond proceeds have been expended only on the school facilities projects approved by Measures B and J legislation, and the results of that testing, and not to provide an opinion on the effectiveness of the OUSD's internal control over ensuring compliance with Measures B and J expenditure limitations. Accordingly, this performance audit report is not suitable for any other purpose.



Oakland, California  
May 13, 2015

**OAKLAND UNIFIED SCHOOL DISTRICT  
SCHEDULE OF PERFORMANCE AUDIT FINDINGS  
June 30, 2014**

**FINDINGS IN WHICH VIEWS OF THE OUSD MANAGEMENT WERE REQUESTED**

Findings 2014-01 and 2014-02 are described in the Schedule of Financial Audit Findings. These findings, and views of the OUSD management, are incorporated into the Schedule of Performance Audit Findings by reference.

**FINDINGS THAT DO NOT REQUIRE THE VIEWS OF THE OUSD MANAGEMENT**

The evaluation of the 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 the 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 the two new construction contracts of  $\geq$ \$15,000. Our evaluation of the bids disclosed no instances of noncompliance with the 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 nine different non-construction contracts. We found no instances of non-compliance with the 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 performed in accordance with generally accepted government auditing standards, we followed up on recommendations included the performance and fiscal audit for the year ended June 30, 2013.

**Recommendation 2013-01** We recommend that OUSD implement adequate internal controls over journal entries to determine their effect.

**Views of OUSD Management** The District has made the recommended adjustments to the financials, as reflected in the Financial Schedules. District management agrees that the accounting support for the Facilities Department was insufficient, and has restructured and centralized the accounting functions since July 2013. The Facilities Department's accounting is now managed by a Program Accounting Manager who reviews and signs off on all journal entries, invoices and accounting source documents. Two additional Financial Accountants have been added to support the Department. The Facilities Department is now staffed with adequate and knowledgeable accounting staff to ensure that all accounting functions are properly handled. The following are processes currently in place:

- All journal entries originating from the Facilities Department have to be checked and approved by the Accounting Manager before going to Central Accounting for processing.
- The approval process includes ensuring that all pertinent back-up documentations are attached, with adequate justification for the transaction.
- The Accounting staff prepared a multi-year spreadsheet to track all Measure B expenditures since inception. This exercise helped management to make correcting entries for prior period reports as well as validating the authenticity of the data in the general ledger.

**Current Status** OUSD has implemented all corrective actions to ensure that only valid journal entries are posted to the general ledger and reflected in the financial statements.

**Auditor Comment** We did not find any unsupported adjusting journal entries during our audit of the year ended June 30, 2014. We therefore consider this finding to be corrected.

**Recommendation 2013-02** We recommend that the OUSD management continue to review its invoice payment procedures to reduce the number of days between submission and payment, and increase the practicability of compliance with AR 3314.

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

|                                 |   |
|---------------------------------|---|
| <b>Views of OUSD Management</b> | <p>This issue is a top priority for the current financial accounting staff in the Facilities Department during Fiscal Year 2013-14. Improvements that will address Audit Finding 2013-02 include:</p> <ul style="list-style-type: none"><li>• A Program Accounting Manager and two new Financial Accountants have been hired to facilitate the accounting functions for the Facilities Department.</li><li>• A policy of rejecting incomplete invoice packages as mentioned in the audit report has been implemented to prevent payment delays.</li><li>• The Facility Division now utilizes an invoice-processing work flowchart to visually depict Project Manager-Vendors-Contractors-Accountants relationships. This flowchart helps identifies delay areas, and provides the Facility Division opportunities to improve vendor invoice processing.</li><li>• Facilities Department Financial Accountants are now paired up with the Project Managers/Project Engineers to facilitate the processing of Purchase Orders, Invoice Receipts, Invoice Processing, and submission of invoices for payments.</li><li>• To reduce unnecessary delays in meeting our obligations to vendors, Financial Accountants and Project Managers now meet on a regular basis to review invoices and project budgets.</li></ul> <p>The restructuring and re-staffing of the Facilities Department has reduced the time it takes an invoice to be processed and paid from a high of 180 days, to between 0 and 5 days, as per current Accounts Payable Aging Reports.</p> |
| <b>Current Status</b>           | <p>We have implemented all corrective actions as of December 31, 2013.</p>  |
| <b>Auditor Comment</b>          | <p>We found two instances of noncompliance prior to December 31, 2013, and found no instances of noncompliance thereafter. The two instances of noncompliance have been reported in Finding 2014-02.</p>  |



**OAKLAND UNIFIED SCHOOL DISTRICT**  
**MEASURES B AND J 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”) and School Facilities Bond of 2012 (also known as “Measure J”) 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 excerpts from Measures B and J summarize the purposes of the bonds:

**Measure B**

“...To repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs ...”

**Measure J**

“...To improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety...”

**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.” Measure J legislation requires “...an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List.”

We performed our performance audit for the year ended June 30, 2014 to comply with the Measure B and Measure J performance 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**

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

**USE OF BOND PROCEEDS**

Measure B Bond proceeds have been expended on 126 different school renovation, modernization and new construction projects. Of the 110 projects, 8 are in pre-design, 27 are in design, 9 are in construction, 37 are in the close-out process and 45 projects are complete.

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**MEASURES B AND J PERFORMANCE AUDIT**  
**BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued**

**Appendix**

Measure J Bond proceeds have been expended on 12 different school renovation, modernization and new construction projects. Of the 12 projects, 4 are in pre-design, 5 are in design, 2 are in construction, and 1 is in the close-out process.

In addition to amounts expended on specific projects, Measure B and Measure J bond proceeds have been expended on District staff and consultants whose activities directly support the renovation, modernization and construction efforts.

**OBJECTIVES, SCOPE AND METHODOLOGY**

The primary objectives and scope of our performance audit of the Bond Measures B and J renovation, modernization, and building program were to: 1) obtain reasonable assurance on whether proceeds, including interest on unexpended proceeds, from Measures B and J were expended only for purposes described in the bond measures; 2) assess the OUSD's Measures B and J procurement policies and procedures for compliance with California law; 3) assess the adequacy of internal controls over Measures B and J 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 the OUSD's Measures B and J expenditures for the fiscal year ended June 30, 2014 and does not extend to any financial or performance audit reports pertaining to other the OUSD funds or programs, or to the OUSD taken as a whole.

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

1. Met with the OUSD Measures B and J Program officials to obtain an understanding of the Measures B and J renovation, modernization and construction program, including policies and procedures for project management, procurement, change orders, prevailing wage compliance monitoring, and invoice processing.
2. Evaluated the OUSD's policies, procedures for Measures B and J 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 Measures B and J procurement, change orders and invoice processing to assess their ability to provide reasonable assurance of compliance with the applicable California laws and Measures B and J provisions.
4. Evaluated high-dollar expenditures, plus a random sample of all other expenditures for the year ended June 30, 2014 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 the OUSD had a program to monitor contractor compliance with State prevailing wage requirements.

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**MEASURES B AND J PERFORMANCE AUDIT**  
**BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued**

**Appendix**

In addition, we conducted a financial audit of the Combined Schedule of Measures B and J Revenues and Expenditures for the year ended June 30, 2014. 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.

**SELECTION OF EXPENDITURES FOR TESTING**

OUSD management provided us with a database of expenditures, which we reconciled to total reported Measures B and J expenditures of \$17,115,28 and \$9,276,087, respectively. 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.

**Non-Labor**

The following summarizes our analysis of non-labor expenditures charged to Measure B:

|  | Number<br>of Items | Total Dollar<br>Amount |
|--|--------------------|------------------------|
| High-dollar expenditures               | 16                 | \$ 8,677,987           |
| Items subject to random sampling       | 442                | 4,979,615              |
| Low dollar items excluded from testing | 59                 | 6,325                  |
| Net zero items                         | 200                | -                      |
| Grand total                            | 717                | \$13,663,927           |

Expenditures to three vendors (contractors) on three projects totaled \$8,677,987. We tested all 16 invoices paid to these three vendors. We used computer-based monetary unit sampling (“MUS”), a type of random sampling frequently used in both financial and performance audits, to select 30 additional non-labor items for testing.

We excluded the following from non-labor testing: 1) 100 items with matching credit amounts (200 total line items), since the net dollar amount of these items was zero; 2) 59 line items which totaled \$6,325.

The following summarizes our analysis of non-labor expenditures charged to Measure J:

**OAKLAND UNIFIED SCHOOL DISTRICT  
MEASURES B AND J PERFORMANCE AUDIT  
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued**

**Appendix**

|  | Number<br>of Items | Total Dollar<br>Amount |
|--|--------------------|------------------------|
| High-dollar expenditures               | 9                  | \$ 8,064,136           |
| Items subject to random sampling       | 118                | 1,209,750              |
| Low dollar items excluded from testing | 31                 | 2,201                  |
| Net zero items                         | 16                 | -                      |
| Grand total                            | 174                | \$ 9,276,087           |

Expenditures to five vendors (nine invoices) totaled \$8,064,136, or 87% of total expenditures charged to Measure B. We used MUS to select ten additional random items for testing.

We excluded the following from testing: 1) 8 items with matching credit amounts (16 total line items), since the net dollar amount of these items was zero; 2) 31 line items which totaled \$2,201.

**Labor**

Since only \$209 of the total \$2,286,016 of labor and benefits was charged to Measure J, all labor was treated as one pool for testing purposes. The following summarizes labor expenditures by employee group, and includes total benefits:

|                                    | Number of<br>Employees | Total Dollar<br>Amount |
|------------------------------------|------------------------|------------------------|
| Full-time                          | 20                     | \$1,488,871            |
| Budget office (partial allocation) | 2                      | 72,666                 |
| Others with occasional charges     | 11                     | 21,989                 |
| Total labor                        | 33                     | 1,583,526              |
| Benefits                           |                        | 702,490                |
| Total labor and benefits           | 33                     | \$ 2,286,016           |

We confirmed that the 20 full-time employees were actually resident at the High Street facilities location. We also confirmed three employees' job classifications and monthly salaries to the School Board-approved salary schedule.

We analyzed benefits by type (for example, pension contribution, payroll taxes, etc.) as a percentage of labor (for all but health and welfare) and by headcount (for health and welfare, as these expenses are more dependent on the employees' existence as OUSD employees instead of their salaries).

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**MEASURES B AND J PERFORMANCE AUDIT**  
**BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued**

**Appendix**

**Expenditures Originally Charged to Bond Measure A**

During the year ended June 30, 2014, OUSD management found that certain expenditures charged to Bond Measure A ("Measure A") after June 30, 2009 should have been charged to Measure B. This was because interest income that should have been credited to Measure B was actually credited to Measure A, and the interest income was used to fund these expenditures.

Because Measure A was not subject to the performance audit requirements of Measure B, expenditures transferred from Measure A to Measure B were subject to the Measure B performance audit procedures during the year ended June 30, 2014. The following summarizes non-labor expenditures transferred from Measure A to Measure B:

|  | Number<br>of Items | Total Dollar<br>Amount |
|--|--------------------|------------------------|
| High-dollar expenditures               | 16                 | \$10,019,457           |
| Items subject to random sampling       | 287                | 2,179,407              |
| Low dollar items excluded from testing | 125                | 1,683                  |
| Net zero items                         | 132                | -                      |
|  | <b>560</b>         | <b>\$12,200,547</b>    |
| Grand total                            |                    |                        |

We selected all 16 high-dollar expenditures for testing. We used MUS to select ten additional random items for testing.

The following summarizes labor expenditures charged to Measure A in the two-year period ended June 30, 2010:

|                                    | Number of<br>Employees | Total Dollar<br>Amount |
|------------------------------------|------------------------|------------------------|
| Full-time                          | 18                     | \$2,257,226            |
| Budget office (partial allocation) | 2                      | 97,450                 |
|                                    | 20                     | 2,354,676              |
| Total labor                        |                        |                        |
| Benefits                           | 20                     | 1,011,865              |
|                                    | 20                     | \$3,366,541            |
| Total labor and benefits           |                        |                        |

**OAKLAND UNIFIED SCHOOL DISTRICT**  
**MEASURES B AND J PERFORMANCE AUDIT**  
**BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued**

**Appendix**

We compared individuals and salaries during the years ended June 30 2009 and 2010 to those tested in 2011-2014, and found no unusual fluctuations. Similarly to testing of current-year benefits, we analyzed benefits by type (for example, pension contribution, payroll taxes, etc.) as a percentage of labor (for all but health and welfare) and by headcount (for health and welfare, as these expenses are more dependent on the employees' existence as OUSD employees instead of their salaries).

Total salaries and benefits above are \$3,366,541, which is the total amount that could have been transferred from Measure A to Measure B. OUSD chose to transfer \$2,437,745 of labor and benefits from Measure A to Measure B.