



OAKLAND UNIFIED
SCHOOL DISTRICT

Community Schools, Thriving Students

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Internal Auditor

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Board of Education
Tony Smith – Superintendent
Vernon Hal – Deputy Superintendent

Re: Internal Audit – Annual Report – FY 2009-10

Major Challenges Facing District	Planned Actions – Internal Audit
Parents, employees and the community at large should be aware the OUSD is a responsible steward of the funds entrusted to it.	To achieve the above and to reduce the number of reportable audit exceptions, Internal Audit should work with Fiscal Services, Information Technology, State & Federal Compliance, Payroll, HR and other departments to identify and correct errors and exceptions, where they exist, and strengthen Internal Controls District-wide.
Apportionment revenues from attendance are critical to the financial stability of the OUSD.	Working collaboratively with the Chief Services Officer, Information Technology, Fiscal Services and other departments to help protect its major revenue source, Internal Audit should take a leadership role to help reduce exceptions in the reporting of attendance by school sites.
Accurate and complete employee time certification records are critical to funding for categorical programs.	Working collaboratively with State and Federal Categorical Programs, Internal Audit should document procedures, review Internal Controls and help ensure time certification records for Federal and State compliance are accurate.

Summary of Major Findings and Recommended Actions

1. Attendance

1.1 **All-day code in AERIES not entered consistently.** At sites which report period attendance, specifically middle- and high schools, an absence code must be entered daily by the attendance clerk in what is called the all-day field, otherwise the AERIES system considers the student present and apportionment credit is claimed.

Recommended action: For recording period attendance, attendance office staff shall enter applicable AERIES codes daily in the all-day field.

Staff Response: The attendance reference guide, under monitoring procedures and monthly reports, instructs administrators and attendance clerks on reconciling attendance issues or problems including entering absence codes in the "All-Day Code" field. Monitoring reports are available

The remedy to this situation includes training and oversight assistance. OUSD already requires that all sites provide adequate clerical support staffing to manage attendance. OUSD also provides for training through "Attendance University" through Tech Services. As a further step to complement the staffing and training opportunities, the District must also require that site staffing take advantage of the training annually. Currently site administrations will bar attendance at Attendance University saying that they need the clerical person on the site but they fail to ensure that said staff participate at a later time.

There is an apparent lack of understanding of the needs or the requirements to adequately manage the taking of attendance. The Principals themselves must be trained in the taking of attendance, their legal obligations, and the changes in the expectations around attendance taking per CALPADS.

In all cases, if staff is newly assigned training as pertains to the new position is mandatory. This might best be accomplished at the end of the summer and before classes open. Additionally, per the recommendation of the supervisor staff can be required to participate (avail themselves of) annual training. The training calendar can be revised to regular intervals and be coordinated with the appointment of new staff as identified by HR. Given the advantages to a well trained and fully informed workforce it is logical that the cost of adding additional paid days to the calendar will offset the expense.

In further support of proper attendance taking and attendance data management and in support of supervisors in their oversight responsibilities, The FCO Attend & Achieve Unit, which supports the identification and improvement of chronic absence and truancy, will provide supplementary training in attendance matters. Assistance is provided by FCO A & A staff working directly with site attendance staff in

SART & SARB strategies and engagement with students and families to improve overall attendance.

- 1.2 Unverified absences not always cleared promptly. It is OUSD policy to clear Code A or “unverified” absences within 72 hours. During 2008-09, nearly 50 per cent of all absences were reported as “Code A.” Attendance office staff frequently reports that they either cannot reach parents or guardians to determine the cause of absences, or they don’t have the time to call. This weakness comes into focus especially for truant students.

Recommended action: Attendance office staff shall clear unverified absences in accordance with OUSD policy. Internal Audit shall continue to review AERIES to ensure this is done.

See recommendations to 1.1 above.

FCO Response: The FCO Attend & Achieve Unit provides supplementary training specifically in Truancy related attendance matters. Assistance is provided by FCO A & A staff working directly with site attendance staff in SART & SARB.

- 1.3 Teachers not signing weekly attendance reports. AERIES produces a weekly summary of attendance, which must be signed and dated by teachers, per Ed Code.

Recommended action: If teachers fail to sign and date weekly attendance reports as required by Ed Code, this shall be documented for disciplinary action.

Staff response: The job description and specific duties of the person responsible for attendance accounting at the site to include weekly review, verification, and reporting that the summaries are complete and correct if this is not already explicit. This may also be confirmed by the principal through a verification page that affirms acceptance and responsibility.

In conjunction with item 1.5 below, if ABI is the standard attendance accounting strategy, the attendance report can be generated at the main office at the site and held for signature. The method for accountability should be determined.

- 1.4 Independent study contracts incomplete, non-compliant. Internal Audit noted that Independent Study contracts are frequently missing required signatures, dates and work samples.

Recommended action: Attendance Clerks and Principals shall be fully compliant with Independent Study documentation requirements.

Staff Response Independent Study (IS) has proven to be problematic across the district, so much so that, similar to suspensions which are far more frequent, it is a reasonable recommendation that the principal and

principal's supervisor be required to sign off on any IS contract. Currently neither the principal nor principal's supervisor is required to sign the Master Agreement.

The recommendations are that IS be restricted to and allowed only under specific circumstances set by the Superintendent. Currently there is a stated difficulty in securing work for students who are on IS contracts. The current IS Master Agreement requires a single teacher signature. Short-term IS is made available to students awaiting expulsion, students who request extended time away from school among others. In all cases where it is the decision to place a student are provoked by a school or district decision and is clearly the best option then ALL pertinent teachers should sign the master agreement acknowledging their obligation or explaining why they should be relieved of their professional and ethical obligations.

1.5 Not all teachers are using the AERIES Browser Interface (ABI).

Internal Audit noted that use of ABI by teachers is considered voluntary at some sites.

Recommended action: Principals should be reminded the use of ABI is mandatory and continued use of "bubbling" and Scantrons results in duplication of work.

Willful non-compliance shall be documented for disciplinary action.

Staff Response: The recommendations here are a combination of 1.1 as a training matter but including an acknowledgment / verification step. Training for teachers and administrators who are not proficient or comfortable in the use of the online tool should have regular opportunities to learn or refresh skills.

As an additional step I recommend that teachers sign a document of acknowledgment that they understand the District's requirement that attendance be kept using ABI. Only if and when the necessary and reasonable computer access is not available is a teacher absolved of this responsibility to use ABI and may resort to paper attendance.

1.6 Each school site should have a trained attendance clerk. Given the importance of accurately recording attendance, there is funding for an attendance clerk at all sites for FY 2010-11. Previously, this was optional.

Recommended action: The hiring of at least one attendance clerk at each site should continue to be mandatory.

FCO Response: The FCO Attend & Achieve Unit provides supplementary training specifically in Truancy related attendance matters. Assistance is provided by FCO A & A staff working directly with site attendance staff in SART & SARB.

1.7 The position description for Attendance Clerk should be updated. The current description does not accurately reflect all regular duties for these

employees. For example, it does not include disciplinary responsibilities and documentation requirements. In addition, attendance clerks at some sites have not attended required AERIES training, and some lack the necessary technical skills. A few sites have attendance clerks responsible for multiple sites.

Recommended action: The Attendance Clerk position description should be updated. Attendance at training is mandatory, and failure to attend shall result in disciplinary action.

See 1.3 above.

- 1.8 Lack of classroom resources for reporting attendance. Some sites report not every classroom has a working computer for teachers to record attendance on. At one site, I noted not every classroom had Internet access. These variables may all impact the accuracy of data reported.

Recommended action: Internal Audit shall work with Information Technology to ensure all teachers have a working computer on which to record attendance. Computers may be shared for this purpose.

See 1.5 above.

- 1.9 Limited resources - Funding for Internal Audit assistant Ms. Wylie to visit school sites to review attendance ran out during 2009-10 and, because of other higher-priority work commitments, Internal Audit is currently unable to review attendance at school sites. Given the critical importance of accurately reporting attendance to Apportionment Revenues, reviews of attendance at school sites should have a high priority.

Recommended action: When funding permits, Internal Audit should be provided additional resources to review school site attendance and cash handling procedures.

Staff Response: Absent an Internal Auditor and in recognition of the role of the Executive Officers for regions and networks. It is recommended that the ExO conduct random spot audits for attendance yearly. The timing and frequency of these audits would be determined by the Superintendent or designee.

- 1.10 Independent Study – Internal Audit noted frequent non-compliance with Independent Study's Education Code requirements, including absence of required signatures and dates, and assigned work not being completed and samples kept on file.

Recommended action: Principals shall be reminded of the essential elements in documenting Independent Study to be fully compliant with the Education Code.

See items 1.1 & 1.4 above. This is a matter of training and modification of the Master Agreement signatures and approvals.

- 1.11 Suspensions – Not all suspensions are being documented in accordance with Education Code. At one Elementary School, Internal Audit observed an on-campus suspension with no documentation. Principals have reported pressure not to report suspensions.

Recommended actions: Principals shall be reminded that all suspensions be documented in accordance with Ed Code.

Staff Response: The OUSD Suspension Form completion ensures that the suspension is justified and the needs of the student and family are supported. Proper completion of the form assures that the legal and educational requirements are met. The FCO will conduct a review of the suspensions in SY 10-11 and generate a report for ExOs to explain the trends and issues that are evidenced in the suspensions during this school year.

The auditing of suspension forms should be a regular event and might be done at random as a check on the site's procedures in this area of work. While for SY 10-11 the FCO can carry out this chore, absent the FCO the ExO or other might be assigned the work by the Superintendent.

Any auditing regimen must be in addition to annual training / retraining offered by the Pupil Discipline Office. Said training must be offered on a cyclic basis across the year and be required of any and all newly assigned staff

2. School Site Cash Handling

Cash handling at athletic events

In response to concerns that all athletic event ticket sale receipts at some high school sites were not being properly accounted for, Internal Audit and the OAL Commissioner developed documented procedures for cash handling at such events. These were implemented for high school basketball and football games during 2009-10.

Recommended actions: During 2010-11, Internal Audit shall visit high school sites to observe ticket sale and related cash handling procedures at basketball and football games and ensure documented procedures are being followed.

3. Associated Student Body procedures

Internal Audit reviewed cash handling procedures at Skyline High, Oakland Tech., Oakland High, Fremont Federation and MetWest. The following recurring weaknesses in Internal Controls at high schools were noted:

- 3.1 District funds (fees, fines, donations) and non-district (ASB) funds are being commingled.

Recommended action: District and non-district funds shall be accounted for separately.

Staff Response: Procedures and processes are established in the ASB manual which is available on-line (intranet) and should be printed as a desk top manual at each site, for annual review and reference.

3.1 Checks at some sites are being written using single signatures.

Recommended action: All checks shall require dual signatures.

Staff Response: Procedures and processes are established in the ASB manual which is available on-line (intranet) and should be printed as a desk top manual at each site, for annual review and reference.

3.2 In high schools, there are antiquated systems to record receipts and disbursements, such as "one write" systems, where carbons are used to prepare cash receipt and disbursement journals.

Recommended action: When resources permit, recording of receipts and expenditures shall be automated using Excel, QuickBooks, Blue Bear or similar software.

Staff Response: Technology should be encouraged as a means to properly track and record transactions for efficiency in review and auditing.

3.3 Trial balances, Income Statements and Balance Sheets are not being prepared at high schools.

Recommended action: Financial statements shall be prepared monthly, with copies sent to Internal Audit.

Staff Response: Further discussion on recommendations for 3.3 and 3.4 should be addressed with Internal Auditor.

3.4 Bank reconciliations are not always prepared at high schools.

Recommended action: Bank reconciliations shall be prepared and independently approved monthly, with copies sent to Internal Audit.

Staff Response: Further discussion on recommendations for 3.3 and 3.4 should be addressed with Internal Auditor.

3.5 Manual receipts or other acknowledgement of cash received are not always prepared at high schools.

Recommended action: There shall be a contemporaneous record for all cash receipts, such as manual receipts or acknowledgement letters.

3.6 Treasurers or Office Managers at high schools are not being provided training in cash handling procedures.

Recommended action: Training in cash handling and Associated Student Body procedures should be provided at least annually

Staff Response: Procedures and processes are established in the ASB manual which is available on-line (intranet) and should be printed as a desk top manual at each site. For annual review and reference.

7. Payroll; Leaves

Payroll

7.1 Payroll checks have been issued in error to employees in excess of authorized amounts, sometimes without prompt detection.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit, to help prevent errors in paycheck amounts. ACL software should also be used to help provide assurance that gross pay, withholdings and net pay fall within expected ranges.

Staff Response: Staff concurs. Formal written procedures will be established to improve our quality control function and training provided to all staff. As part of the quality control function we will produce a procedure manual that will include processes for segregation of duties and independent review of work. Staff does not concur with the software recommendation as there are no internal subject matter experts on the software. However we will collaborate with Tech Services to develop technological solutions. This recommendation applies to 7.1 thru 7.6.

7.2 Payments of taxes and payroll liabilities have not always matched amounts withheld and accrued.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

7.3 IRS penalties and late payment fees have been incurred for late and incorrect payments of taxes withheld.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

Staff Response: Formal written procedures will be established to improve our quality control function and training provided to all staff. As part of the

quality control function we will produce a procedure manual that will include processes for segregation of duties and independent review of work. Staff does not concur with the software recommendation as there are no internal subject matter experts on the software. However we will collaborate with Tech Services to develop technological solutions. This recommendation applies to 7.1 thru 7.6.

- 7.4 Access to payroll modules by Payroll Services employees in IFAS is not limited to those who require access.

Recommended action: Access to IFAS should be limited to those who require access to specific modules

- 7.5 A Payroll Services employee to posted negative PERS withholdings in IFAS without prompt detection, resulting in net check amounts exceeding gross checks.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

- 7.6 Certain employees have received both regular pay and disability pay in excess of amounts they are entitled to.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

Leaves

- 7.7 Various employees have accumulated large accrued leave balances without limitation, resulting in significant future district liabilities.

Recommended action: There should be an accrual cap established for leaves, beyond which employees may no longer accrue balances. Annually, employees should be asked to confirm accrued leave balances in writing. Employees should be requested by supervisors to schedule vacations and use current balances which exceed the cap within a reasonable period, say two years. For represented employees, these recommended changes may need to be negotiated.

- 7.8 Internal Audit noted a Payroll Services employee who showed accumulated negative leave and sick leave balances in IFAS.

Recommended action: Employees should not be allowed to use leave and sick leave in excess of their entitlement.

- 7.9 Responsibility for the recording of leaves and sick leaves is fragmented, with poor communication between departments. Various employees

received both disability pay and regular pay for extended periods without detection.

Recommended action: Internal Audit recommends management of leaves is consolidated.

- 7.10 Internal Audit documented instances where, after employment with the OUSD ended, the district continued to accrue benefits for certain former employees.

Recommended action: On separation of employment, HR and Payroll Services should document that accrued vacation and leave balances in IFAS, if accurate, have been paid. Residual accrued balances of leaves and sick leaves of former employees should be deleted.

9. Mandated Cost Recovery

Notice of Truancy Letters

An audit finding by the State Controller's Office Audit following a review of 2006-07 "Notice of Truancy" (NOT) letters sent to parents and guardians claimed that the district included only six of the eight required elements. The allegation, if proven, could have resulted in the loss of approximately \$700,000 in apportionment revenues. There was no loss to the district.

Recommended action: The FCO should ensure all future NOT letters meet Ed Code requirements.

Staff Response: The FCO failed to update the sample letters kept on the District website which led auditors to question whether the proper letters were employed by the District to notify students and families of truancy. Given that the District had a history of using a notification letter that did not meet the State's requirements, this was especially troubling. The matter has been resolved. The FCO regularly reviews the letter sent out automatically by Tech Services based on Aeries triggered absences. With the support of SIA, the Notification of Truancy is reviewed and updated annually as are the website documents.

12. Special Projects

12.1 Legal Services

Internal Audit worked with Legal Services to address various matters in payroll, contracting and questionable reporting of attendance in an after school tutoring program.

One issue examined was whether an employee can also be an independent contractor for the district. Internal Audit noted at one site, custodians received checks with no withholding from student body funds in addition to their regular pay, which is paid through Payroll Services.

Conclusion/ recommended action: Established Administrative Regulations pertaining to this should be followed at school sites. District custodians cannot perform additional services, such as clean-up after athletic events, and be considered independent contractors. Compensation for additional services performed by district employees must be paid through Payroll Services.

12.2 Title 1, Supplemental Educational Services (SES)

Various contractors through the Title I, SES program, provide after school tutoring to disadvantaged OUSD students. Internal Audit documented weak time recording procedures by one major contractor, resulting in students who were marked absent all day in the regular day program being marked "present" in the after school program. The vendor has been asked to repay the amount overpaid. Classroom observation of the students showed, for the same vendor, the majority of time which was supposed to be for tutoring was spent by students doing regular classroom homework, after which they went out to play. This appears inconsistent with the claim it is primarily an academic program. Child Nutrition also documented that for several after school programs, attendance reported was altered to equal meal counts.

Conclusion/ recommended actions: Staff for an after school tutoring program improperly recorded students as being present who had been marked as absent all day in the regular day program.

The OUSD should not renew its contract with this contractor responsible for the exceptions noted. Internal Audit should review all major after school programs for compliance.