

DRAFT

Re: Board Bylaw 9131, Section 3, Report of Audit Committee to the Oakland Unified School District Board of Trustees (Trustees)

Dear Trustees and Superintendent,

The Audit Committee (Committee) is pleased to present its findings, recommendations and the results of its activities for the calendar year 2021~~0~~. ~~We are pleased to report that we have 2 new members and that all Committee positions are filled. We meet the first Monday of every month except holidays and during the summer.~~

Financial Statements

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We have reviewed the June 30, 2021~~0~~ Annual Financial Report in detail with the external auditor, Eide Bailly, and with the chief business officer (CBO), Lisa Grant Dawson~~—~~. The 2021 audit is qualified with respect to governmental funds due to the auditor's inability to determine whether the net pension liability, deferred outflows, deferred inflows and expense were accurately stated. The pension finding is a repeat finding but was elevated from a deficiency in internal control to a finding that results in a qualified opinion on governmental activities due to the number of items in the auditor's sample to which the condition applied (74%). The finding 2021-002 reads in part, "...we cannot confirm if the eventual payments are for the correct amounts". For context, the district's contributions for 2021 were \$54.7 million (Schedule of District Contributions to Pensions, p. 60) and the pension expense on a full accrual basis was \$89 million (Note 9, p. 44). A future correction may affect the district's credit rating and ability to issue debt as well as payments to the pension plans.

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The Committee and the public asked the administration to provide progress updates on clearing the audit findings on a monthly basis. To that end the district provides a monthly tracker (attached). It should be noted that the number of findings dropped from 15 to 10 and even though 10 audit findings remain there has been great progress made on some of the remaining findings. Most notable is the rollout of the accounting software and procedures for managing ASB accounts. For the first time the amounts in those accounts have been recorded and included in the presentation of the financials. It remains an audit finding as the auditor is asking for documentary evidence that all accounts were included but it is a significant accomplishment to get those accounts included in the financial statements for the first time.

The Committee anticipates further progress in the pension and payroll related findings in 2022 due to the hiring of a payroll manager in 2020. The vacation tracking and related vacation payout audit findings are at least partially the result of prior year lapses in adequate record retention and one would expect those findings to resolve as the prior accruals are paid out and record keeping procedures are established and followed.

External auditor

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The Committee reviewed the Request for Proposal (RFP) and asked that attendance by the auditor at all audit committee meetings be included in the RFP. It was not included in the RFP, but the committee believes the district would be best served by participation of the auditor in the audit committee meetings.

In the private sector the auditor would attend all audit meetings. The committee's view into the action of the district is limited to that of the CBO and the auditor. The presence of the auditor at the meetings provides a second perspective on existing district policies and procedures and may provide new ideas based on outside experience that may be beneficial to OUSD. Furthermore, the Committee is charged with reviewing district policies with respect to internal controls and recommendations that the auditor may have with respect to improving those controls. To achieve this we need the auditor to be present at Audit Committee meetings. To that end we hereby formally ask the assistant superintendent to authorize 16 hours of additional services at \$475/hour.

In accordance with BB9131 the Committee is charged with recommending the Auditor to the BOE for approval. To that end the Committee has reviewed the selection process and approves the selected auditor.

The Committee

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Currently the Committee should consist of 5 members and there is currently one vacancy due to the expiration of a member's term in January. No one currently on the board has significant experience with government accounting or auditing. We would ask that the Trustees not appoint a new member until one can be found with audit or actuarial experience. We have also asked the Trustees to increase the size of the committee to 7 in hopes of gaining more expertise on the board.

~~For 2021, in addition to the standard review of the audited financial statements, the committee intends to update its duties as articulated in the policy. In 2021 the Committee reviewed and updated its roles and responsibilities to include action items [as well as an increase in the size of the committee to 7]. The policy is 15 years old and some of the tasks may be impossible (e.g., the committee cannot meet with the internal auditor if there is no internal auditor) or irrelevant. The Committee would appreciate it if the BOE would address our request.~~

Also, in accordance with the policy BB 9131 the Committee hereby requests written guidance from the Trustees on recommended focus areas for 2022¹. Absent further guidance from the Trustees the committee intends to focus on reviewing district policies regarding internal controls for the remainder of 2022.

The Committee also wishes to express its appreciation for the continued support from Council Member Williams and CBO Lisa Grant Dawson. Their attendance and participation in meetings is extremely valuable.

It is disconcerting that most of the fifteen audit findings are repeat findings (attachment 1) related to insufficient internal controls. Lack of internal controls is, in some instances, a material weakness that could result in material misstatement of financial reports and financial risk. The Committee appreciates the candid discussions with the CBO during the year regarding challenges faced by the district in addressing the audit findings and the timing for correcting those findings. The Committee is cautiously optimistic that progress is being made on clearing some of the findings as indicated in corrective action plans included in the Annual Financial Report as well as the hiring of Directors of Payroll and Budget and Finance. Some of the corrective action plans included in the 2020 Annual Financial Report are appreciably more detailed than prior years and include updates to processes and policies. The committee recommends that a written plan with a timeline for resolving the audit findings be presented and updated as a standing agenda item in its monthly meetings to facilitate the monitoring of the district management's actions taken to resolve findings.

However, the number of repeat audit findings related to insufficient oversight and/or lack of enforcement of an existing policy where the planned corrective action by the district was and continues to be to revise and/or implement procedures and yet the finding has existed for several years continues to raise concern about the ultimate resolution of the findings. Resolution of some findings may involve cooperation across multiple sites and functions, systems updates, policy updates, Trustee policy revisions, negotiations with third parties. The focus of the Committee is to become aligned on the prioritization, track progress on the steps required to resolve the finding and hold the district accountable for the progress made towards its objectives. The Committee would like to emphasize that accountability must start with the Trustees, the Committee and all levels of management.

We would also like to make sure the Trustees are aware that audit finding 2019-004 and 2019-008 relate to issues with vendor selection and documentation of adherence to either Board of Trustees or federal policy. The Trustees are required to approve certain contracts and the committee recommends that as part of that approval process the Trustees confirm that vendors were selected in accordance with district and/or federal policy. Again, the Board of Trustees must hold the district accountable.

The Committee commends the district on maintaining a healthy unrestricted reserve above 3%. An adequate reserve has been an historical issue and it's something the Committee uses as a barometer of the financial health of the district. This reserve amount speaks to the strength of the budgeting, reporting and financial planning process. The Trustees resolved (1819-0144) to maintain a 3% reserve, refund anything in excess of that to school sites in 2019-20, and use conservative revenue projections. The committee recommends that the Trustees continue to make public resolutions with recommended reserve targets particularly if the Trustee's recommendation is to exceed the state requirement. The general fund reserves at June 30, 2020 were 4.34%.

We would also note that the only finding that results in a qualified opinion of the actual presentation of the financials is the lack of accounting for the associated student body (ASB) accounts. School sites need ways to manage cash from candy grams, school dances, yearbooks etc. and many sites use an OUSD 'doing business as' (DBA) account for this purpose. The district is to be commended for implementing a new system to manage these accounts and the audit committee appreciates that ASB accounts typically result in audit findings across multiple districts and will continue to be an audit finding until all schools have adopted this system for a full year.

Earlier in 2020, in compliance with Board Policy 3461, the committee reviewed and made comments on the audit Request for Proposal (RFP). Whether its officially part of the documented audit engagement or not the Trustees and the District should understand that the Audit Committee needs unfettered access to the external auditor.

~~For 2021, in addition to the standard review of the audited financial statements, the committee intends to update its duties as articulated in the policy. The policy is 15 years old and some of the tasks may be impossible (e.g., the committee cannot meet with the internal auditor if there is no internal auditor) or irrelevant. Also, in accordance with the policy the committee hereby requests written guidance from the Trustees on recommended focus areas for 2021.~~

And, finally, we appreciate the CBO, Lisa Grant Dawson's, patience with a mostly new committee. We appreciate that she has been able to educate the Committee on the challenges the district faces, her consistent attendance at our meetings, her willingness to answer questions and her succinct and relevant reporting to our committee. It's a refreshing and welcome change. We also appreciate the value of her time and will work to condense our meetings or combine them with the Trustee's finance meetings and/or attend budget and finance presentations to the Board of Trustees so that she does not have to duplicate her efforts.

Respectfully, the Audit Committee

Attachment 1 ([Audit findings tracker](#))

Audit Year					Audit	Views of Responsible Officials	Targeted Resolution		
2016	2017	2018	2019	2020	Finding Description	Planned Corrective Action Summary 2020	status update		
					2020-001 Associated Student Body (ASB) Accounts auditable summary lacking and therefore ASB accounts are not included in the financial accounts. Material weakness in internal control.	ASB Works, an ASB accounting system, is being rolled out and training scheduled for February 2021.	2022		
x	x	x	x	x					
	x				Fiduciary Funds not timely reconciled				
					2020-002 Documentation to support payroll reported to pension providers lacking in 67 out of total sample of 89. Significant deficiency in internal control.	A designated area of focus by district management. Resolution requires both systems changes and procedural changes followed by training.	Change implementation started in Sept 2020.		
	x				Cafeteria cash receipts lack internal controls				
	x				Cash disbursements/accounts payable lack internal controls				
x	x				CDE form for highly qualified teachers not used				
					2020-003 Vacation Reserves - documentation to verify vacation usage lacking which impacts accrued vacation on separation which could lead to eventual payouts in excess of what was earned. Material weakness in internal control.	Leadership team is revising procedures.			
		x	x	x	Worker classification documentation establishing employee vs contractor status lacking.				
		x	x		2020-004 Documentation to support vendor selection is pursuant to District policy lacking. Significant deficiency in internal control.	District is developing new procedures which may result in recommendation to board for revised purchasing policies.			
x		x	x	x	2020-005 Health Benefits Governance Board (HBGB) formula used to calculate the District's obligation to fund health and welfare benefits lacks clarity and differing interpretations result in substantially different outcomes. Material weakness in internal control.	HBGB negotiations in progress.			
		x	x	x					
			x	x	2020-006, 2019-007 Audit adjustments. 2019 Health and Welfare benefits were incorrectly charged resulting in an audit adjustment. 2020 Building Fund expense charged to current year due to late receipt of invoice should have been recorded in prior year in accordance with generally accepted accounting principals (GAAP). Significant deficiency in internal control.	Accounting controls and procedures will be part of training.			
			x	x					
x	x	x	x	x	2020-007 Documentation required to support employee time allocation for federal programs is insufficient. Material weakness in internal control.	Procedure implementation began January 2021.	2022		
				x	2020-008 Evidence that vendors for child nutrition and food service programs were selected according to Uniform Guidance is lacking. Material weakness in internal control.	Procedures being centralized under Director of Transportation and Purchasing.			
	x	x		x	2020-009 Students incorrectly identified as qualifying for free or reduced price meals. Material weakness in internal control.	Technology staff to work with child nutrition staff to ensure documentation is complete, reviewed and reconciled.			
		x	x		Title 1 student/teacher ratio failed at one school (2018) and six schools (2019).				
		x			2020-010 Program attendance for afterschool 21st Century grant insignificantly overstated (2020), not accurate (2018), poorly maintained (2017). Significant deficiency in internal control.	Federal and State compliance department to develop procedures.			
x	x	x		x	2020-011 Funds spent on early intervention services for special education should be tracked separately from other special education services. Material weakness in internal control.	TBD			
	x				Time and effort documentation lacking.				
x	x				No plan for spending 3.5M from CDE for educator effectiveness.				
					2020-012 Average daily attendance (ADA) would have been overstated but for an audit adjustment. There is a known glitch in the attendance system that requires a technology fix. There are policies in place to manually correct these errors, but processes and policies to ensure that the corrections are made at secondary sites need to be enforced.	Policies and procedures will be revised as identified.			
		x	x	x	2020-013 School accountability report card - failure to adequately track/publish complaints.	Central office staff are developing procedures.			
x		x	x	x	2020-014 School accountability report card - failure to provide an adequate facility inspection tool or equivalent to document conditions reported in facilities for 11 out of 18 sites sampled.	Identified by district as a gap in assignment and will take corrective action.			
				x	Minimal instructional minute requirement not met for one or more schools in one or more grades				
		x	x						
					2020-015 Unduplicated local control funding formula (LCFF) pupil count audit sample incorrectly classified one English learner (EL) and two free or reduced price meal (FRPM), one EL (2019) and FRPM (2018). Internal control process has inadequate monitoring.	District to review assignments and data validation procedures.			
x	x	x	x	x					
Total Findings					9	12	14	13	15