

DRAFT

April 4, 2022

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

Dear Trustees,

The Audit Committee (Committee) is pleased to present its findings, recommendations and the results of its activities for the calendar year 2021.

Financial Statements

We have reviewed the June 30, 2021 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". This is a major concern and 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). Not only is the high percentage of errors in sample disconcerting but a future correction may affect the district's credit rating and ability to issue debt as well as actual pension expense payments.

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 (edited and 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 (2021-003 and 004) 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 of 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. Per the audit report the district paid \$7 million to employees for accumulated vacation upon separation from the district but was unable to confirm the amounts were actually due to the employees. The Committee is concerned about the cost to the district of

potentially paying out unearned vacation and intends to review the controls around the payroll process in 2022.

External Auditor

In accordance with BB9131 the Committee is charged with recommending the auditor to the BOE for approval. To that end the Committee reviewed the RFP and selection process and asked for and received progress reports from the CBO during the year. However, because of confusion over the wording of the RFP the contracts included only the parcel tax fund audits and not audit services for the district as a whole. Given the recent experience with the RFP process to obtain an audit contract, namely: only 2 bids were submitted; the quality of the bids had areas of concern for the committee; the length of the process (9 months); and the proximity of year end (i.e., auditors generally start work prior to the yearend meaning they should be starting now) the Committee recommends an extension of the contract with Eide Bailly for another year to ensure that the June 2022 year end audit can be completed on time and that the process is competitively bid and adequate to obtain a qualified auditor for 2023.

The Committee reviewed the draft 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 original RFP, but the committee believes the district would be best served by participation of the auditor in the audit committee meetings and requests that the revised RFP include participation by the auditor in audit committee meetings which would likely cost approximately \$7,600 (16 hours of services at approximately \$475).

In the private sector the auditor would attend all audit meetings. The committee's view into the actions of the district is somewhat limited to that of the CBO, controller and the auditor. The presence of the auditor at the meetings provides a second perspective on existing district policies and procedures and may provide insights 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 as needed at Audit Committee meetings.

The Committee

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.

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 Committee asks the Trustees to grant our request.

Also, in accordance with BB 9131 the Committee hereby requests written guidance from the Trustees on recommended focus areas for 2022. 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.

Respectfully, the Audit Committee

cc Kyla Johnson-Trammell, Superintendent

Attachment 1 (Audit findings tracker)

Audit Committee Audit Findings Report - February 7, 2022								
Audit Year								
2016	2017	2018	2019	2020	2021	Audit Finding Description	Targeted Resolution and Status Update 2/7/22	2021-22 Audit View
						A significant deficiency in internal control over financial reporting – The District cannot provide documented evidence that all student body activity is captured within its accounting records. Furthermore, the District is developing the controls to ensure that student activity funds are expended for allowable activities and accordingly were not available for the year ended June 30, 2021. Repeat finding 2020-001.	As of the testing date back in Feb of 2021, not all District ASB submitted documentation to Business Services. However, by June 30th, 2021, documentation was received, ASB accounts were recorded to the district's accounting system ASB Works, reconciled and documentation made available for audit. On annual basis, site administrator/principals are/will be asked to certify that they have disclosed all bank accounts under the site admin's management. Sites have been trained and will continue to be trained on managing ASB per FCMAT guidance. Business Services will update procedures to specifically require for certification that bank accounts have been disclosed by school principals and banks to Business Services.	The District should continue implementing a corrective action that started during the fiscal year 2021. We recommend the District formally document how it concluded that all student body funds were recorded into the District's accounting records. Additionally, the District should adopt the procedures contained in the FCMAT ASB manual regarding custody and oversight of the student body funds.
x	x	x	x	x		R 2021-001		
						A material weakness in internal control over financial reporting – The District could not supply documentation to satisfy us that census information and payroll amounts reported to pension providers are complete and accurate. We analytically recalculated these expenses, noting that the payment made to pension providers during the year appears correctly recorded in the accounting records of the District. However, since we could not verify if the underlying data on which those charges are based is complete and accurate, we cannot confirm if the eventual payments are for the correct amounts. Repeat finding 2020-002.	Change implementation started in Sept 2021	There appears to be a lack of ongoing monitoring and oversight to ensure that employees involved in the critical process are consistently following the established policies and procedures, including the retention of pertinent physical records to support the performance of documented controls. Often no single person is accountable to locate documents or answer questions.
			x	x		R 2021-002		
						A material weakness in internal control over financial reporting – The District was unable to supply documentation to prove that vacation usage is accurately recorded in the payroll system and that balances do not exceed the maximum allowed per District policy. Furthermore, we noted that the controls over the calculation of accrued vacation on separation do not include documentary evidence of an independent reviewer. The District verbally informed us that someone independent of the preparer reviews each calculation. However, because evidence of the control is not documented, we consider this to be evidence of a material weakness. Repeat finding 2020-003.	In progress and executed for 2020-21 as of 2/19/2022	Management in charge of these areas should be held accountable to ensure that all critical internal control policies and procedures are communicated to the employees charged with carrying out those procedures. Management further needs to monitor compliance and ensure that processes are being performed timely and consistently. Furthermore, there needs to be one established method to ensure that controls are being followed and that employees do not deviate from established District policies. Finally, there needs to be a formal record retention policy that supports the fact that controls are being followed following District policies.
			x	x		R 2021-003		
						In substantive testing of general ledger account balances, the reported payroll expenditures are fairly stated based on the amounts paid upon separation. However, we cannot conclude if the District has a complete and accurate accounting of vacation balances on which to base payments upon separation.		
						Payroll Internal Control Process, Vacation Payments	Currently, leave records are maintained at the site and are not submitted to the District's Leave Department. These records are imperative to evaluate vacation and other leave requested and taken and it has been recommended and a new process developed to secure the detail records of employee leave monthly from each site/departments. It is these records that historically have not been available within the Central District Office and/or requested or provided by the sites/departments upon auditor selection.	Management in charge of these areas should be held accountable to ensure that all critical internal control policies and procedures are communicated to the employees charged with carrying out those procedures. Management further needs to monitor compliance and ensure that processes are being performed timely and consistently. Management should prepare an auditable accounting of the documentation of which the District determined periods of accumulated vacation during the year to be valid. The District should consult with legal counsel about recovery if any payouts are determined to have been incorrect.
						A material weakness in internal control over financial reporting – The District was able to pay \$7 million to employees for vacation accumulated; however, it is unable to assert that the amounts paid were actually due to the employees.		
						2021-004		
						A material weakness in internal control over financial reporting – The formula to calculate the District's health and welfare obligations per the HBGS agreement is unclear and has been interpreted differently with substantially varying outcomes. Specifically, the part of the formula that reads "...take the FTE from the total of all authorized full-time equivalent positions covered by this Agreement...as outlined in the Position Control Report as of October 31..." is not clear. Standard usage of the PCR is for budgeting purposes, subject to estimation risk and uncertainty. Repeat finding 2020-005.	Negotiation is ongoing.	
			x	x		R 2021-005		
						A material weakness in internal control over financial reporting – Audit adjustments were necessary for the financial statements to be presented to conform with generally accepted accounting principles. Repeat finding 2020-006.	The District will review its professional development plans to support employee training in this area to support appropriate entries.	Management personnel responsible for financial accounting and reporting should seek continuing professional education regarding accounting standards applicable to governmental entities.
						2020-010 Program attendance for afterschool 21st Century grant was incorrect: understated (2021), significantly overstated (2020), not accurate (2018), poorly maintained (2017). There was a material weakness in internal control over compliance because attendance reported to the DOE was incorrect.	The District will work with the appropriate departments to train on the attendance requirements to ensure appropriate attendance reporting is correct and reviewed during the year.	Any changes to attendance records after the cut-off period should require manual override by responsible District officials.
			x	x		R 2021-007		
						2020-12 - if not for audit adjustments, reported attendance, and by extension, state funding that is based on ADA would have been overstated.	Though this has been a significant area of improvement in training and development, there continue to be areas of adjustment and training that is occurring which we expect to yield even better results in 2021-22.	This is a carryover finding from 2020 due to a temporary carryover of ADA from 2020. The total regular ADA at P-2 was 23 thousand. A change of one ADA has approximately a \$10,000 effect on the unrestricted general fund.
			x	x		R 2021-008		
						Aeries defaults students as present unless specially marked absent by the classroom teacher. The District's internal control process requires site clerks to verify that a "single-period" attendance is correct. We identified instances where the verification occurred, but the necessary revisions to the Aeries attendance records did not happen. Furthermore, various designations are used to record when students are absent because of, for example, illness, vacation, field trip, unexcused. We identified instances where students were counted as "present" when multiple absence codes were used on a single day.	We are facing a national teacher shortage, impacting all districts, including Oakland Unified's ability to find qualified credentials. Therefore, some of the teachers we have do not have the appropriate credentials. We have supporting documents to get the appropriate authorizations by one on one support about the credentialing process, identifying pathways for teachers to credentials and additional authorizations. We have established a cross departmental team to analyze how courses are coded and which teachers are assigned to help mitigate the amount of mis-assignments. As part of our goal of increasing diversity in our teaching force, we recognize that traditional credentialing programs do not have a significant pool of teachers of color. As we target the recruitment of more teachers of color, we are strategically recruiting people of color into the teaching force and they are needing emergency credentialing authorizations as we support them to become fully credentialed. Additionally, we are exploring an in-house OUSD credentialing program.	From a sample of 100, we identified two possible instances of noncompliance. One sample did not have an attempted transfer out of state credential but not valid currency, and the last sample was identified showing no credential.
			x	x		R 2021-009		
						2021-009 Teacher Certification and Missings - From a sample of 100, we identified two possible instances of noncompliance.		
						One sample was identified with an attempted transfer out of state credential but not valid currency, and the last sample was identified showing no credential.		Information contained in the SAC regarding complaints related to teacher missings or inaccuracies may be incomplete or inaccurate. Furthermore, the District did not comply with the requirements noted in the Criteria paragraph.
						2021-009		
						School Accountability Report Card - The District did not provide us with the quarterly summaries described in the criteria paragraph. Repeat Finding 2020-13	District HR/Talent office staff are developing procedures to address this finding. To that end, Talent staff will work to ensure that it is in compliance with Teacher Certification Missings/Compliance requirements. See responses for finding 2021-009.	
			x	x		R 2021-0010		

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