

**OAKLAND UNIFIED SCHOOL DISTRICT
MEASURE N PARCEL TAX**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND SUPPLEMENTARY SCHEDULES**

FOR THE YEAR ENDED JUNE 30, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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Independent Auditor's Report

Board of Education and
Measure N Citizens' Oversight Committee
Oakland Unified School District

We have audited Oakland Unified School District's compliance with the requirements described in the November 4, 2014 Measure N for the year ended June 30, 2018.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of Oakland Unified School District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Oakland Unified School District's compliance based on our audit.

We conducted our audit of compliance 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 Oakland Unified School District has complied with the compliance requirements as specified in the November 4, 2014 Measure N. An audit includes examining, on a test basis, evidence about Oakland Unified School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Oakland Unified School District's compliance with those requirements.

Basis for Qualified Opinion on Compliance with Measure N

As described in the appendix I, Summary of Audit Procedures, as items 2, 3, and 4 the Oakland Unified School District did not comply with requirements of Measure N. Compliance with such requirements is necessary, in our opinion, for the Oakland Unified School District to comply with the requirements of Measure N.

Qualified Opinion on Compliance with Measure N

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Oakland Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the November 4, 2014 Measure N for the year ended June 30, 2018.

Internal Control Over Compliance

Management of Oakland Unified School District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Oakland Unified School District's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the appendix I, Summary of Audit Procedures, as items 2, 3, and 4, to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day ZP

March 5, 2019

Appendix I
Summary of Audit Procedures

The Measure N Parcel Tax, known and referred to as “The Oakland Unified School District College and Career Readiness for All Act” (Measure N) was authorized by an election of the registered voters of the District, held November 4, 2014. Measure N provides for a special tax of \$120 per taxable parcel in the City of Oakland. The parcel tax is for ten years; the tax rate is fixed at \$120 per parcel and provides for low income and senior citizen exemptions. Further, Measure N requires that no less than 90% of proceeds be allocated equitably for education programs, on a per pupil basis, for students in grades 9 through 12, enrolled in all current Oakland Unified School District schools and Charter schools authorized by the Oakland Unified School District.

Goals of Measure N

- Reduce the drop-out rate and provide OUSD high school students with real-world work and learning opportunities.
- Prepare students for admission to the University of California and other four-year colleges.
- Expand mentoring, tutoring, counseling support services and transition to job training programs.

Objectives of our audit

- Ensure proceeds and expenditures of the parcel tax are fully accounted in the books and records of the district.
- Ensure expenditures are in support of permissible uses as per the ballot language.
- Ensure expenditures are in support of approved activities per the approved site plans.
- Ensure that high school grants and charter school grants were allocated as per the ballot language. Include a schedule of allocations per school in the financial audit report.
- Ensure that the administrative overhead allocation does not exceed 10% cumulatively from inception, exclusive of county collection costs.
- Ensure that senior citizen exceptions and low-income exemptions are complete, accurate, and supported by source documents.
- Make a positive statement about the issue of supplanting versus supplementing.

Scope

- District expenditures funded by measure N during the fiscal year 2017-18.
- Charter expenditures funded by measure N during the fiscal year 2017-18.

Methodology and Findings

The following describes the audit procedures and our related findings.

1. Obtain parcel tax expenditure detail reports prepared by the District and agree the amounts to the general ledger.

Finding: We obtained the details of all revenues and expenditures charged to the Measure N general ledger accounting records. No exceptions as a result of applying this procedure.

2. Separately for District schools and charter schools, review the nature of the expenditures, and review source documents as appropriate, to ensure they were within the permissible uses of the ballot language.

Finding, material weakness in internal control over compliance and non-compliance regarding **District vendor transactions**: We analytically reviewed the entire population of expenditure accounting records to search for transactions outside the scope allowable expenditures. Individual transactions were selected for additional audit analysis, which includes reviewing source documents such as invoices, contracts, purchase orders, or payroll records. Subjected to the further audit analysis were 80 vendor expenditures

aggregating \$1,030,603 funded by Measure N during the fiscal year 2017-18. The results of applying this procedure are as follows:

For the following four items totaling \$23,964, the documentation does not draw a clear nexus between the purpose of the expense and the goals of Measure N:

- McClymonds High School
 - \$2,024 expensed for technology-related items. The documentation does not show precisely what was purchased.
- Oakland High School
 - \$13,963 expensed for apparel.
 - \$1,780 expensed for what could be audio and visual equipment.
- Oakland Technical High School
 - \$6,197 expensed for apparel.

We reviewed 76 transactions aggregating \$1,006,639 with no exceptions noted.

Finding, material weakness in internal control over compliance and non-compliance regarding **District payroll transactions**: We analytically reviewed the entire population of expenditure accounting records to search for transactions outside the scope allowable expenditures. Individual transactions were selected for additional audit analysis, which includes reviewing source documents such as invoices, contracts, purchase orders, or payroll records. Subjected to the additional audit analysis were 72 payroll expenditures aggregating \$1,743,937 funded by Measure N during the fiscal year 2017-18. The results of applying this procedure are as follows:

For ten items aggregating \$26,562, the District was unable to provide supporting origination documentation. A summary of the general ledger accounting records for these items are as follows:

- Castlemont High School: 2 transactions aggregating \$9,071
- Dewey High School: 1 transaction of \$904
- District-wide expense: 3 transactions aggregating \$5,678
- Linked Learning: 1 transaction of \$6,876
- Oakland International High: 2 transactions aggregating \$2,954
- OPSR Counseling: 1 transaction of \$1,078

We reviewed 62 items in total of \$1,717,375 with the supporting documentations including:

- Bunche Academy: 1 item of \$2,985
- Castlemont: 1 item of \$65,308
- Community Day School: 1 transaction of \$4,308
- Dewey: 1 item of \$59,391
- Fremont: 5 items aggregating \$81,610
- Independent Study: 1 item of \$64,007
- Life Academy: 1 item of \$2,245
- Linked Learning: 2 items aggregating \$179,616
- Madison Middle: 1 item of \$99,108
- McClymonds: 3 items aggregating \$123,998
- MetWest: 1 item of \$2,494
- Oakland High: 15 items aggregating \$262,333
- Oakland Tech: 20 items aggregating \$344,440
- OPSR Counseling: 1 item of \$178,620
- Skyline High: 7 items aggregating \$243,466

We found two exceptions among the reviewed payroll samples. The documentation does not draw a clear nexus between the purpose of the expense and the goals of Measure N.

- A School Security Officer's Stipend of \$1,075
- Assistant Principal's salary of \$107,062

Of the reviewed payroll samples, 14 transactions aggregating \$51,197 were supported by alternative documentation prepared to support the audit, as opposed to documentation prepared in the ordinary course of business following District internal controls. Our audit sample was selected in September 2018, and the alternative documentation was prepared and provided in February 2019. The length of time and the reliance on alternative documentation is evidence of internal control deficiencies.

Finding, **Charter school payroll and vendor transactions:** We reviewed the Measure N Expenditure Accounting forms submitted by each charter school to assess if any items appear outside the scope of Measure N. Those transactions, and other random transactions, were selected for additional analysis including tracing the accounting records to source documents. The results of applying this procedure are as follows:

ARISE: Total of \$17,498 expenditures were selected for testing. No exceptions as a result of applying this procedure.

EBIA: Total of \$100,251 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Golden State Prep: Total of \$256,765 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Lighthouse: Total of \$156,249.04 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Lionel Wilson: The school did not provide source documents to support the accounting records.

LPS: Total of \$193,067 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Envision Academy: Five transactions aggregating \$197,361 were selected for testing. Except as follows, no exceptions as a result of applying this procedure. The school charged Measure N \$12,965 of indirect costs. Indirect costs are not named as a permissible cost in the Measure N ballot or administrative regulations.

Oakland School for Arts: Total of \$73,570 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Street Academy: Total of \$61,124 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Unity: Total of \$161,973 expenditures were selected for testing. No exceptions as a result of applying this procedure.

Recommendation:

The current policy regarding compliance with Measure N is not working as intended, as evidenced by the time-delays and lack of documentation to support the audit. Under current policy, the Measure N office approves the site-initiated expense “request,” and the District’s Payroll Department or Accounts Payable Department approves the “time-card or “invoice” for payment. However, details about the practical implementation of the policy are subject to the interruption of current employees of the responsible departments; the “policy” therefore “changes” with employee turnover.

We recommend the District to formally create an organization chart identifying the department and specific person responsible for approving Measure N expenses for payment. We also recommend the District to officially develop a document retention policy to facilitate timely retrieval of supporting documents.

Concerning indirect costs, the District should formally determine if such costs are allowable and the administrative regulations should be amended to avoid any ambiguity.

3. Ascertain if District schools and charter schools used funds to provide services, which they were legally required to make available by virtue of being a school. Also, perform procedures to determine whether the parcel tax funded services were previously provided with another funding source.

Finding, material weakness in internal control over compliance and noncompliance – The same sample applicable to item #2 was used for this procedure. The exceptions for vendor and payroll transactions also apply to this procedure since we cannot determine the nature of those expenses. Furthermore, District documentation does not indicate why the security officer and the assistant principal positions are considered “supplemental.”

Recommendation: Ensuring an item of expenditure is supplemental should formally be part of the standard approval process before incurring an expense or entering into a contract. To that end, the District should develop specific and written criteria that may be used to evaluate if an expense is supplemental. Furthermore, like the recommendation for procedures number 2, the recommendation regarding documentation retention is also applicable to this procedure.

4. Test a sample of expenditures to ensure they were spent in accordance with the approved site plan.

Finding, material weakness in internal control over compliance and non-compliance: Among the 152 transactions we were able to review for the procedures two and three, we found seven items not stated on the approved site plan, 48 items that are not determinable because the approved site plan language is vague, and 36 items that could not be located on the site plan.

Recommendation: Similar to the recommendation for procedure number 2, ensuring expenditures are included on the approved site plan should be part of the approval process that occurs before an expense is obligated. The process should be documented in writing so that it may be objectively followed by the person responsible for compliance. As a condition for approval, there should be a documented connection to the specific item on the site plan of which an intended expenditure relates.

We also recommend that site plans avoid ambiguous language subject to interpretation after approval such as “consultants” or “travel and conferences” or “professional learning” or “house spirit supplies.”

5. Recalculate the ratio of administrative overhead charges to total proceeds to ensure that no more than 10% of proceeds are spent on administrative overhead, cumulative and exclusive of county collection costs.

Finding – No exceptions were noted as a result of applying this procedure. We obtained the District’s calculation of the fiscal year 2017-18 administrative overhead calculation, noting that the District allocated 90% to school sites, including charter school sites, and 10% for administrative overhead. We calculated that from the inception of Measure N through June 30, 2018, the District was allocated \$3,410,561 of Measure N administrative funds. For the same period, the District expended \$3,229,711 for Measure N administrative activities. The remaining unspent Measure N administrative funds at June 30, 2018, of \$180,850 are available for spending in subsequent years.

6. Select a sample of district schools and a sample of charter schools. Test the allocation of grant proceeds to the sample of schools.

Finding – No exceptions as a result of applying this procedure. We obtained the District’s calculation of the fiscal year 2017-18 school allocation noting that the basis of the allocation is the “20-day count” and was consistently applied to District schools and charter schools. We also verified that the amount allocated to school sites is 90% of the total current year parcel tax.

7. Obtain an understanding of how the District processes the senior citizen exceptions and low-income exemptions. Select a sample of exemptions and apply procedures to ensure they are complete, accurate, and supported by source documents.

Finding - We identified no deviations from applying this procedure. We obtained an understanding of how the District processes the senior citizen exceptions and low-income exemptions. Our audit sample consisted of 80 randomly selected low income and senior citizen exemption forms.

Recommendation for improvements to internal controls:

Processing exemptions and updating the tax rolls is managed exclusively by one District employee. We recommend the District to identify a specific person responsible for overseeing the work of that employee. That person should periodically review applications to ensure the District’s control process is working as intended.

8. Examine sufficient supporting documentation to validate the amount of Measure N Parcel Tax revenues received and recorded by the District.

Finding: No exceptions as a result of applying this procedure. The District correctly recorded the fiscal year 2017-18 revenue in the accounting records of Measure N.

Appendix II
Summary financial schedules

Table 1, Schedule of Balance Sheet Accounts for the year ended June 30, 2018

Assets

Cash in County Treasury	<u>\$ 10,547,898</u>
Total Assets	<u>10,547,898</u>

Liabilities and Fund Balance

Accounts payable and accrued liabilities	719,796
Fund Balance	<u>9,828,101</u>
Total Liabilities and Fund Balance	<u>\$ 10,547,897</u>

Table 2, Schedule of Income Statement Accounts for the year ended June 30, 2018**Revenues**

Measure N parcel tax collections	\$ 11,580,344
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Expenditures*District-wide expenditures*

1145	COLLEGE READINESS	267,508
1414	COLLEGE and CAREER	593,021
9055	FISCAL 1X PARCEL TAX (Administrative expense)	114,190
	Total District-wide expense	<u>974,719</u>

Site-level expenditures

1690	Direct school site expense	7,525,899
3830	Green Academy @ Skyline	66,779
3837	CPA Comp Sci & Tech	17,992
3843	CPA - Fashion @Oak Tech	23,586
3847	CPA-Comp Sci@ Skyline	12,000
3851	MEDIA ACADEMY	12,557
3861	ARCHITECT, DESIGN, CONST	18,235
3867	ENVIRONMENTAL SCIENCE ACAD	41,713
3880	ENGINEERING ACADEMY	6,346
3907	9th Grade Academy	90,350
3908	Health Academy	24,971
3909	VAAMP	10,295
3910	PLTW	34,845
3911	AVID	29,186
3912	PHA	39,037
3913	Global Studies	11,568
3914	VAPA	41,275
	Total site-level expense	<u>8,006,634</u>

Other expenditures and transfers

Transfers to charter schools	2,203,928
County Collection Fees	193,944
Total other expenditures and transfers	<u>2,397,872</u>

Total expenditures and transfers	<u>11,379,225</u>
Change in fund balance	201,119
Fund balance - beginning of year	9,626,982
Fund balance - end of year	<u>\$ 9,828,101</u>

Table 3, Allocations and Ending Balances as of and for the year ended June 30, 2018

School	2017-18 Measure N Allocation	2016-17 Carryover	FY 2017-18 Available Fund Balance	FY 2017-18 Actual Expense	Carryover Amount (Unspent 2017-18 Funds)
215 Madison Park Upper	\$ 367,200	\$ 172,123	\$ 539,323	\$ 319,786	\$ 219,538
232 CCPA	229,500	7,472	236,972	214,499	22,473
335 Life Academy	231,200	119,208	350,408	172,649	177,759
338 MetWest	139,400	41,221	180,621	123,612	57,010
301 Castlemont	725,050	131,521	856,571	719,972	136,599
302 Fremont	715,700	128,425	844,125	649,023	195,102
303 McClymonds	345,100	111,902	457,002	344,778	112,225
304 Oakland High	1,332,800	150,531	1,483,331	1,392,510	90,822
305 Oakland Tech	1,714,450	394,635	2,109,085	1,574,556	534,529
306 Skyline	1,496,850	245,006	1,741,856	1,562,349	179,507
309 Bunche	92,650	89,082	181,732	112,213	69,519
310 Dewey	226,100	113,436	339,536	200,593	138,944
313 Street Academy	97,750	3,500	101,250	101,250	-
330 Sojourner Truth	164,900	78,262	243,162	103,356	139,806
333 Community Day	28,900	2,358	31,258	25,881	5,377
352 Rudsdale	141,950	104,866	246,816	135,584	111,232
353 Oakland International	312,800	40,189	352,989	209,551	143,438
354 Rudsdale Newcomer	106,250		106,250	44,472	61,778
Charter ARISE	244,800	-	244,800	18,175	226,625
Charter Aspire Lionel Wilson	235,450	(4,973)	230,478	230,478	-
Charter Envision Academy	351,050	-	351,050	345,390	5,660
Charter Lighthouse	223,550	32,300	255,850	255,850	-
Charter LPS Oakland	348,500	-	348,500	348,500	-
Charter Oakland Unity High School	294,950	-	294,950	294,950	-
Total Cohort 1 Schools	10,166,850	1,961,067	12,127,917	9,499,976	2,627,941

**Table 3, Allocations and Ending Balances as of and for the year ended June 30, 2018
(Continued)**

		<i>Full Measure N Allocation</i>	<i>Amount in Reserve</i>	<i>2017-18 planning Year Allocation</i>	<i>FY 2017-18 Actual Expense</i>	<i>Carryover Amount (Unspent 2017-18 Funds)</i>
Charter	Aspire Golden State Prep	\$ 277,100	\$ -	\$ 277,100	\$ 277,100	\$ -
Charter	EBIA	112,200	-	112,200	\$112,200	-
	Total Cohort 2 Schools	389,300	-	389,300	389,300	-
		<i>Full Measure N Allocation</i>	<i>Amount in Reserve</i>	<i>2017-18 planning Year Allocation</i>	<i>FY 2017-18 Actual Expense</i>	<i>Carryover Amount (Unspent 2017-18 Funds)</i>
Charter	Oakland School for the Arts	378,250	289,250	89,000	89,000	-
	Total Cohort 3 Schools	378,250	289,250	89,000	89,000	-
		<i>Full Measure N Allocation</i>	<i>Amount in Reserve</i>	<i>2017-18 planning Year Allocation</i>	<i>FY 2017-18 Actual Expense</i>	<i>Carryover Amount (Unspent 2017-18 Funds)</i>
	District-level expenditures	1,138,640	16,930	1,155,570	974,719	180,851
	County Collection Fee	-	-	-	193,944	-
	Total, Measure N	\$ 12,073,040	\$ 2,267,246	\$ 13,761,786	\$ 11,379,224	\$ 2,808,792