DRAFT

Re: Board Bylaw 9131, section 3, Report of Audit Committee to Board of Trustees

Dear Members of the Board of Education,

The audit committee is pleased to present its findings, recommendations and the results of its activities for the calendar year 2020. 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.

We have reviewed the 2018-19 Audited Financial Statements in detail with the external auditor, Eide Bailly, and with the CBO, Lisa Grant Dawson. It is very disconcerting that most of the thirteen audit findings are repeat findings (attachment 1) related to insufficient internal controls. Lack of internal controls in some instances is a significant deficiency that could result in material misstatement and financial risk. We recommend that the district authorize budget for an accounting expert to establish adequate internal controls. Generally, after the controls and processes are established an internal audit function would then be staffed to audit those controls, processes and procedures. Absent budget allocation sufficient to hire additional personnel we recommend that the district present a written plan with a timeline for eliminating the audit findings. We also would 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 ASB accounts. School sites need ways to manage cash from candy grams, school dances, yearbooks etc. and many school use ASB accounts with a DBA for this. 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.

We would also like to make sure the trustees are aware that audit finding 2019-004 and 2019-005 relate to issues with contracts some of which must be approved by the board of trustees. Audit finding 2019-004 relates to properly documenting whether a worker is a contractor or employee. Audit finding 2019-005 relates to providing documentation to show that vendors were selected according to district policy. The trustees are required to approve certain contracts and could ensure that contracts and vendors that they approve are adequately documented as part of the approval process.

The due date of the 2019-20 audit has been postponed by the state to March 31, 2021 due to the pandemic so the committee has yet to review the 2019-20 audited financials. However, the Audit Committee has reviewed the unaudited actuals and, although it is outside of the purview of the audit committee and the audit is not complete, 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. It 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 recommendation is to exceed the state requirement.

For 2021, in addition to the standard review of the audited financial statements, the committee intends to update its duties as articulated in the board bylaw and review the audit engagement. The bylaw is 15 years old and some of the tasks may be impossible (e.g., the committee can not meet with the internal auditor if there is no internal auditor) or irrelevant. And, the audit contract is up for renewal and so the committee will review the RFP. Also, in accordance with the bylaw the committee hereby requests written guidance from the trustee 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/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

	Auc	dit Year		Audit					
2016	2017	2018	2019	Finding					
х	х	х	2019-001	ASB Accounts auditable summary lacking					
x				Fiduciary Funds not timely reconciled					
		х	2019-002	Documentation to support Payroll Reported to Pension providers lacking					
	х			Cafeteria cash receipts lack internal controls					
	х			Cash disbursements/accounts payable lack internal controls					
x x				CDE form for highly qualified teachers not used					
		х	2019-003	Vacation Reserves - documentation to verify vacation usage lacking					
		х	2019-004	Worker classifications documentation establishing ee v contractor lacking					
x		х	2019-005	Documentation to support vendor selection is pursuant to District policy lacking					
		х	2019-006	HBGB formula lacks clarity and differing interpretations result in substanially diffent outcomes					
	хх	х		Students incorrectly identified as qualifying for free or reduced price meals					
			2019-007	Health and Welfare benefits were incorrectly charged resulting in an audit adjustment					
x	x	х	2019-008	Documentation required to support ee time allocation for Fed programs is insufficient					
		х	2019-009	Title 1 student/teacher ratio failed at one school (2018) and six schools (2019).					
x	x	х		Program attnedance for afterschool 21st Centruy grant not accurate (2018). 2017 afterschool attendance poorly maintained					
	х			Time and effort documentation lacking					
х	х			No plan for spending 3.5M from CDE for educator effectiveness					
	х	х	2019-010	ADA overstated					
х		х	2019-011	School accountability report card - failure to adequately track/publish complaints					
		х	2019-012	Minimal Instructional minute requirement not met for one or more schools in one or more grades					
x	х	x	2019-013	Unduplicated LCFF pupil count audit sample incorrectly classified an ELL (2019) and Free or reduced price meal (2018)					
9	12	14	13						

Audit Finding	Summary/Title	Repeat	Auditor Determination*	Potential Exposure	Priority (my thoughts)	The Fix	District Comments	Status	Cost to Fix?	Potential Liability in \$s?	
2019-001	ASB Accounts	2018-001	Material Weakness	immaterial - this is candy gram \$ with a few potentially large outliers (OAL, OT and maybe others. The issue is that its OUSD \$ and its unknown)	This is the only one that results in a qualified opinion on the amounts reported in the F/Ss, but it also will likely take a lot of work with little fundamental benefit.	Get school sites to provide bank statements/ financial reports for their ASB accounts	Carmelita Reyes (I think?) presented on progress in 2019 - school site training on new system	LGD 9/17 expect all school to be on ASB works in 2021, but might still be a 21-22 finding.			
2019-002	Payroll Reported to Pension provider	2018-002	Significant deficiency	Interim financials could be less reliable	lower?	Policy/procedure for document retention.	Central office developing procedures'.				
2019-003	Vacation Reserves	2018-003	Material Weakness	Paper time cards at school sites. Can't conclude whether District has accurate accounting of vacation balance. Vacation payout in 2019 - \$1.5 M.		Automate it?	Central office developing procedures.	Will be repeat.			
2019-004	Worker classifications (ee v contractor)	2018-004	Significant deficiency	General fund:Contractors/vendors 2019 \$6.5 M	Higher. Documentation on this seems like low hanging fruit.	Written procedures. Also, school board approves contracts great than 300k (I think?) could they be a gate keeper on this issue?	Central office developing procedures.	Will be a reapeat. Don't have tim eline. LGD	CA also	Federal title one and program audits and student nutrition,	all funding streams subject to audit
lated 2019-005	Vendor Selection	2018-005	Significant deficiency	Total vendor expense including construction 189M. 39% of the audit sample lacked documentation to show that vendors were selected pursuant to the disctrict policy.	HIGHEST	Accountability for following a policy. School board I think approves vendors/contracts larger than some amount. They shouldn't approve	Finance will work with Procurement to develop process to ensure documentation is available.	9/17 they are working on it.			
2019-006	HBGB	2018-006	Material Weakness	District pays health and welfare benefits for positions that do not exist, part time and temp employees that don't actually receive the benefit. This is because of lack of clarity in the funding formula. Health and Welfare ber in 2019 was 56M, but determining how far off that migh be is "not objectively determinable". So I think the way is works is Kaiser sends bill but district puts \$ in a reserve to offset future liabilities. I don't understand this well enough.		And thing without proper occumentation. Auditor recommendation is to renegotiate (with HBGB? Who is that?). Or, I guess HBGB has to renegiate with Kaiser?	District presented on this in 2019. I can't find my notes but I think the required parties to the contract may be both the OEA and Kaiser. District comment in FS's: any proposed revision to formula will be reviewed by external audit.	staged to clear in 20-21. A new agreement is being negotiated LDG 9/17			
2019-007	Health and Welfare		Material Weakness	4M adjustment was made to FS's	This was an accounting method error that was fixed		fixed? : district will ask about GASB before chaning account methods in the	will not be a repeat			
2019-008	Ee time allocation for Fed grants	2018-008	Material Weakness	Could have real cost. Ees have to allocate time between grants if they work for multiple ones but activity reports did not not meet the requirements. 407k of questioned costs projected questioned costs 5.5M.	Highest	One person at district to ensure documentation exists and is archived to support the audit (and support fed grant requirement)	New ERP system. Finance will work with compliance staff to ensure documentation is available.	Will not repeat LGD 9/17			
2019-009	Title 1 student/teacher ratio	2018-009	Material Weakness	Could have real cost? 6 of 71 schools didn't meet requirement. Administrative staff did calculations but has no mechanism to fix.	Or red, but this will cost money to fix (hiring more teachers) as opposed to some of these which are just documentation issues.	Hire teachers in schools that fail calcs? Or transfer students? Or, create a policy for ensuring that the calculation is acted upon?	"Compliance dept to develop procedures to ensure compliance" [my note: but they have no control over actual solution - shouldn't solution be school principals are required to follow Title 1]				
2019-010	ADA	partial repeat		attendance overstated. Muliple absence codes used on a single day.	3	IT fix.	Improvements have been and are continuing	Its possible this is fixed. Can we get update?			
2019-011	School accountability report card - failure to adequately track/publish complaints	partial repeat		There is a state law to report complaints but its not tied to any funding (so what is downside?). No cost.		Track complaints.	compliance to work with counsel staff	haven't really done anything yet.			
2019-012	Instructional minutes	2018-014		2 schools were short of instruction minutes. Penalty is 754k but waiver was requested	Skip due to covid	Review each school's minutes (and there should probably be a second review - 2 sets of eyes since fines are steep)		Minute count rules have been waived due to covid I think. But is district tracking or recommending standards?		1	I
2019-013	Unduplicated pupils	partial repeat		1 of 60 tested was wrong. Questioned cost 40k.			Central office developing procedures.				
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	ernal control is less severe than a sigin	itcant deficienc	v		1	I		1	1	1	1