

2017-18 AUDIT FINDINGS

This is a list of findings from the municipal auditors review of all 197 school districts and 19 education service districts in Oregon's K-12 education system. This report encompasses all fund types, which includes federal, state, and local funds and programs totaling approximately \$8 billion per year. The posting of these findings is intended to provide transparency and awareness for all K-12 stakeholders in an attempt to mitigate areas of risk in our financial reporting and accountability systems for schools.

Finding CFDA 10.553/55/59 National School Lunch Cluster: Auditor selected two month's claims for testing. One month contained no errors and in the other month's records the auditor found errors in math on the daily count sheets, errors in bringing amounts forward to from the daily sheets to the monthly recap sheets and an overlooked meal count sheet. As a result the meal counts claimed were inaccurate for one of the month's tested. **Finding CFDA 10.558 Child and Adult Care Food Program:** The October 2017 OMER submitted by the District did not include all the enrolled students. Students who were drop-ins or were present for a short period of time were excluded. As a result the District's reimbursement rate was incorrect.

Finding: Bank reconciliations were not consistently performed through the year. **Finding:** Certain unallowable costs related to payroll expense allocations were charged to grant awards. Procedures should be implemented to ensure that only allowable costs are charged to grant awards. **Finding Special Education Cluster (IDEA):** The District was not in compliance with Uniform Guidance, as unallowable payroll costs were charged to IDEA funds. **Questioned Costs : \$20,051**

Finding: Bank statements were not reconciled for fiscal year 17-18 until late in the fall of 2018.

Finding: Management Override: Controls allowed an additional \$6,205 of unsubstantiated reimbursements to occur in 17-18 year. The District received \$62,783 in insurance proceeds to pay off the employee receivable balance of \$61,861. Litigation is pending on this matter as of 11/21/2018, but the District has been fully reimbursed for the unsubstantiated reimbursements.

Finding: The District's accounting personnel does not possess the advanced training that would provide the expertise necessary to prepare the financial statements related notes in accordance with GAAP, and therefore may not be able to prevent or detect a material misstatement in the preparation and disclosure of the financial statements. Misstatements in financial statements may include not only misstated financial amounts, but also the omission of disclosures required by GAAP.

Finding: On one eligibility application, the family size entered into the District's food service software, MealTime, was incorrect and the student was classified as receiving free meals instead of reduced-price meals. Additionally, one student was entered into MealTime without application information as a manual override and classified as free when the student should have been classified as reduced-price based on income levels as reported on the application. The sample size was 21 students, who were reported as free or reduced by the District.

Finding Title IA - CFDA #84.010: The District was not in compliance with OMB Circular A-87 for payroll costs charged to the Federal grant listed above. The Federal program payroll expenditures did not correspond with the allocations of time as documented on the semi-annual certifications.

Finding: District management did not adhere to competitive bidding processes required by ORS279.

Finding: Special education coordinators did not ensure all time and effort related to the program was adequately supported with time and effort documentation. While documentation was made available for all employees charged to the program, some of the documentation was not obtained until after it was requested by audit staff, many months subsequent to year end.

Finding: With the implementation of GASB 75 in the fiscal year ending June 30,2018, actuarial valuations of other post-employment benefits (OPEB) need to conform to GASB 75.

Finding: District uses auditor's assistance in drafting the financial statements required to comply with independence standards outlined under Government Auditing Standards and AICPA 101-3, This produces significant deficiency in the District's internal control system.

Finding: With the implementation of GASB 73 & 75 in the fiscal year ending June 30, 2018, actuarial valuations of other post-employment benefits (OPEB) need to conform to GASB 73 & 75.

Finding: The District prepaid liability, property, and workers compensation insurance in June 2017 for 2018 fiscal year coverage, which should have been reported as a prepaid expense at June 30, 2017.

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Finding - Cash Management: During our testing of major program reimbursements, we noted that the Districts reported incorrect meal counts on their submitted reimbursement claim forms for the months of October 2017, February 2018, and March 2018. We tested all 14 reimbursement claim forms submitted by the District of the 17-18 fiscal year related to the Child Nutrition Cluster. In the three instances where we noted errors, it appears that lunch counts were reported in both the lunch and breakfast sections of the reimbursement claims. This led to a total of 5,405 in excess meals being claimed by the District in the 17-18 fiscal year, for a total dollar amount of \$8,607, calculated by reimbursable meal rates. This amount is under the known or likely questioned costs exceeding 5% of total federal award expenditures threshold.

Finding: Although we believe the District has staff with the ability to understand, review, and take responsibility for the financial statements required to comply with independence standards outlined under both Government Auditing Standards and AICPA 101-3; our assistance in drafting the financial statements described above produces a material weakness in the District's internal control system.

Finding: The District failed to maintain proper evidence and documentation that the District's policies and procedures were being followed regarding a school's disbursements and reconciliation of their student body account. **Finding:** Audit procedures over accounts receivable and account payable revealed and overstatement in accounts receivable and an understatement in accounts payable that were corrected by management once identified.

Finding: Evaluation of the district's internal control structure disclosed that the district does not have adequate segregation of duties. Accounting duties for main transaction cycles are concentrated on one individual which result in incompatible functions to provide proper segregation of duties. **Finding:** The district engages their auditors to provide non-attest services for the preparation of its financial statements. Although common for municipalities the size of the district, this condition represents a control deficiency over the financial reporting process that is required to be reported under professional standards as long as management makes all financial reporting decisions, and accepts responsibility for the content of the financial statements.

Finding: Due to limited number of available personnel, it is not always possible for the District to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. **Finding:** The District lacks personnel with the ability to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Finding: Lack of timely submission of supporting documentation for credit card purchases. **Finding:** The District had an instance of noncompliance with one restrictive debt covenant related to the outstanding loan. The District received a waiver for the noncompliance issue.

Finding: A single employee has authority to process payroll, approve purchase orders, prepare checks and reconcile the bank account. In addition, that person is an authorized check signer.

Finding: District staff and management have not demonstrated the ability to draft the supporting notes to the financial statements in accordance with accounting principles generally accepted in the United States of America.

Finding: Auditor's evaluation of the district's internal control structure disclosed that the district does not have adequate segregation of duties. Accounting duties for main transaction cycles are concentrated on one individual which result in incompatible functions to provide proper segregation of duties.

Finding: Capital asset schedules - there were a number of assets on the ESD's capital asset schedule that had been disposed of in prior years but were still listed on the schedule.