

## 2021-22 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 \$14 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.

\*Assistance Listing (AL) formerly referred to as Catalog of Federal Domestic Assistance (CFDA) number.

**Federal Program AL #10.553, #10.555, #10.559 Child Nutrition Cluster, USDA.** The auditor noted a in Nutrition Services in regards to procurement documentation. The District maintains written board policies regarding procurement, however they are not sufficiently developed to meet the requirements for federal procurements as required by CFR 200.320. Three procurements were identified during the fiscal year that exceeded the micro purchase threshold of \$10,000. Two of the three contracts were not procured in accordance with the federal procurement requirement one contract received only one quote, the other had no quotes. Two vendor contracts were procured above the micro purchase threshold without obtaining an adequate number of quotes. A new Nutrition Supervisor started with the District in August of 2021 and was not trained on procurement procedures prior to the former Supervisors departure. Reimbursement request review by someone other than preparer was not clearly evident.

**Federal Program AL #32.009 Emergency Connectivity Fund Program.** The District did not meet the asset and service inventories as outlined in the compliance supplement. The District submitted reimbursement claims for iPads, which included one shipment of iPads that was received in June 2021. The amount claimed related to the June 2021 shipment was \$210,504. Questioned Costs \$210,504.

**Federal Program AL #84.010 Title IA.** Internal controls should be in place to ensure that an over expenditure in indirect costs does not take place by the district. The District does not have documentation supporting the calculations and associated percentages claimed, inadequate documentation of eligibility calculation

**Federal Program AL #84.027 Special Education.** We (auditor) noted that bi-annual certifications were not performed for the year under audit.

**Federal Program AL #84.425 COVID-19 Education Stabilization Fund Cluster.** Significant Deficiency in Internal Control over Compliance with Equipment/Real Property Management. The District purchased services from an electrical contracting company related to newly installed modular buildings, paid them an amount over \$2,000 and did not instruct the company that Davis-Bacon prevailing wage applied. Two equipment purchases were made without prior approval from ODE out of a total population of 11 invoices, Auditor tested all 11 invoices - no sample was created; Questioned Costs \$28,007. One invoice selected in an audit sample of 37 was missing evidence of proper authorization. The District provided incentive bonuses to employees under the Education Stabilization Fund program but lacked appropriated documentation to support secondary review of approval over the payments processed or to ensure compliance over federal programs; In addition, program draws showed inconsistencies in documentation of review and secondary approval.

**Federal Program AL #84.425 Elementary and Secondary School Emergency Relief Fund (ESSER).** Compliance requirement Special Tests and Provisions. It appears the work was performed under a maintenance agreement negotiated in 2019, which did not include the required Davis Bacon Act language. Management obtained certified payroll reports for June 2022 labor related to the project after the request from the auditors for copies of the reports. One of the projects included labor based on the contractor's "call summary", but contractor later indicated that no labor was performed and the charge was only for materials dropped but not installed. The District was unable to verify that the contractor paid their laborers prevailing wage rates as required. We were unable to find evidence that management knew of the Davis Bacon Act requirement or implemented internal controls over the compliance requirement. The District was unable to verify that the contractor paid their laborers prevailing wage rates as required. District should have control processes in place to ensure that projects subject to prevailing wage requirements are performed under those requirements. There were 2 small projects subject to Federal prevailing wage requirements but did not get performed or documented for those requirements.

Accounts payable and capital assets were materially misstated at year end as multiple transactions were attributed to the 2022 fiscal year when they should have been recorded in the 2023 fiscal year. Accounts payable was not recorded at year end.

Adequate segregation of duties in most areas was impractical due to the limited number of employees. The District has, however, developed alternative procedures, which mitigate this condition to some extent.

Auditor noted there were users who were posting transactions related to the subsequent fiscal year in the current audit year in error.
Bank reconciliation accuracy and timing during the course of the audit we noted that bank reconciliations were not completed accurately or timely. Staff amended bank reconciliations for the entire year during the course of the audit. There was no evidence that bank reconciliations were performed in a timely matter for all accounts, or were reviewed and proved by a second employee independent of the preparation process.
Beginning Fund Balances for two funds were significantly misstated and did not match the prior year's ending fund balances;
Cash was not accurately reconciled at year end. When testing bank balances at 6/30/22, [Auditor] noted the General Ledger did not match the reconciliation for the ASB, LGIP, and QZAB Bond Accounts. [Auditor] recommends that cash accounts be reconciled in the General Ledger against the monthly reconciliations to ensure they balance.
Claims to ODE for grant reimbursement did not agree to trial balance amounts during the audit. We recommend an additional review step to ensure claims are accurate (more was claimed than was accounted for in the trial balance). Further, we noted several instances where grant revenue was recorded in different funds than the expenditures related to it. Grant funds claimed should be recorded in the fund where the expenditures are held.
Cutoff procedures were not performed, leading to over \$300,000 worth of accounts payable not being recorded in the financial statements.
District did not get certified payrolls for many contractors within the ESSER grant.
District does not have adequate segregation of duties. Accounting duties for main transaction cycles are concentrated on few individuals which result in incompatible functions to provide proper segregation of duties. Key duties and functions were not sufficiently segregated among Business Office personnel. There was no review of the work performed by the Business Manager.
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. Elected not to have an internal control system designated to provide for the preparation of financial statements and related footnotes from being audited. Auditors were requested to draft the financial statements and accompanying notes.
During [the Auditors] average daily membership 10 day drop rule testing, it was noted the Districts had multiple (10) students that should have been unenrolled after being absent for more than 10 days.
During audit testing, playground equipment was found to have been expensed to the grant, without prior approval as required. Upon identification by audit staff, the expenditures were moved via client journal entry to a non-grant fund, however the control over compliance did not operate appropriately to identify that there was approval needed prior to expensing.
During the course of the audit we encountered significant delays in obtaining documentation required for completion of the audit in compliance with professional standards.
During the course of the audit we noted that bond payments were coded in the incorrect fund. In addition, bond issuance costs were coded in the incorrect fund and were not properly reflected in the proceeds from bond issuance. This would cause material misstatements in two funds and we do not believe that management would have caught the errors on their own.
For the past 4 years, the district has had multiple over-expenditures in multiple funds. This appears to be a systemic control issue. We recommend that free budget trainings with the Oregon Department of Revenue be taken advantage of by the Business Manager, and that the Board ensure they are reviewing reports for the budget appropriation categories that are nearing the authority adopted for that year, and adopting resolutions where needed.
For the year ended June 30, 2022, the District failed to report \$1,164,514 of construction related expenditures in the capital project fund and government-wide financial statements. The error impacted eight contractor draw requests submitted in July 2022 and one contractor draw request submitted in August 2022 for work performed during the fiscal year ended June 30, 2022.
Grant funds received in June 2022 for the Student Investment Account were receipted into fiscal year 2021-22 as revenue, yet an unspent amount remained at June 30, 2022. Excess grant funds of \$542,582 should have been removed from revenue and reported as grant advances of material weakness in internal controls over grants receipts

In the prior year, when one of the District's long term investments matured, the District did not remove the fair market value adjustment balance that had been on the books from the prior periods.
Inadequate cutoff procedures at year end, led to misstatement of payables, receivables, and inventories. During audit testing it was noted that material amounts of payables and receivables were not recorded, as well as inventory not being adjusted to agree to detailed records.
Investments, Revenues, and Fund Balance were materially misstated at year end in the Capital Projects Fund due to Investments not being reconciled.
It was noted during expenditure testing that over \$600,000 worth of invoices were miscoded. Errors included capital items, lease payments, and debt payments being miscoded as to function and object within the general ledger. We recommend an additional review step be added to the payables process to ensure accurate coding.
Land Acquisition During the course of the audit, the auditors found that the District had not recorded the following items related to a land acquisition. The District failed to record the related Full Faith and Credit insurance, the local donation revenue, and the capital outlay expense related to the land acquisition leading to a misstatement of revenue and expenses.
Misclassification of transfers and grants were recorded as miscellaneous revenue.
Override of controls noted - Superintendent signing own reimbursements. This is also a violation of Oregon's ethics laws.
PERS contribution rates decreased after the issuance of PERS bonds and payment of a large PERS UAL lump sum payment in August. September payroll was processed with old rates and was not noticed until final reconciliation after the end of the fiscal year.
Recording of grant revenue reimbursement journal entries were incorrectly recorded leading to an misstatement of revenue, entries were not corrected through review process.
Revenues received after year end, related to June 30, 2022 were not recorded in the trial balance as presented for audit in the amount of \$1,356,196. Bank accounts had not been reconciled and audit procedures were delayed until appropriate reconciliations were produced.
The District did not have a good reconciliation of capital assets. All items were booked in the facilities and maintenance, however they did not keep records of the breakdown of construction in progress by building or project.
The District failed to appropriately record cash transactions related to the pension bonds, which led to a material misstatement of cash and expenditures. The District failed to record multiple payables invoices during year-end close procedures, which could lead to expenditures being recorded in the improper period. We recommend a review of year-end close procedures be done to ensure adequate procedures and avoid future occurrences.
The District has elected not to have an internal control system designated to provide for the preparation of the financial statement and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes.
The District incorrectly accrued PERS costs in the General Fund in the four fiscal years prior to 2021-2022 which lead to an overstatement of liabilities and understatement of fund balance as of June 30, 2021 in excess of \$2.5 million.
The District lacks personnel with the ability to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. Auditor drafts the financial statements, and although management takes responsibility, they are not sufficiently trained to draft format and disclosures. The District does rely on us as the auditor to assist them in drafting the Government-Wide Financial Statements, including reconciliations from the Fund Financial Statements. The District engages their auditor to provide non-attest services for the preparation of its financial statements. Although common for municipalities of this size, 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. The District has staff with the ability to understand, review, and take responsibility for the financial statements required to comply with independence standards, the District has chosen to outsource preparation of the financial statements to external experts.
The District should have control processes in place to ensure that allowable projects subject to prevailing wage requirements are performed under those requirements; There was one project that was subject to Federal prevailing wage requirements but did not get performed or documented for those requirements. The District does not have a good system of internal controls that provides for proper segregation of duties of the accounting functions related to cash receipts and disbursements, accounts receivable and accounts payable, and preparation and review responsibilities of financial information.

<p>The District should have control processes in place to ensure that monitoring procedures are in place for the large contracts. District contracted work for engineering and design of HVAC improvements. Invoice payments were made from summary invoices rather than from application and certification of payment. Did not locate a specific contract for the project, just a proposal. When the application and certification of payments were received, there were errors and changes requiring final reconciliation and accruals.</p>
<p>The District staff write manual checks on a regular basis specifically to correct payroll errors. We recommend this practice be discontinued immediately and only used in a true emergency. Payroll errors should be corrected during the next payroll cycle, or in a secondary run during the period in order to maintain adequate internal controls and ensure accurate payroll reporting.</p>
<p>The District's accounting personnel has years of experience in performing daily and monthly functions, their expertise is limited, however, in the area of financial statement preparation in accordance with the modified cash basis of accounting. The District's year end bank reconciliation were not consistently reviewed and had inaccurate outstanding items that were identified and corrected during audit procedures. The investments were not accurately stated on the modified cash basis of accounting. The District has the ability to prepare all the individual fund financial statements including the Budgetary Comparison Schedules. However, the District does rely on us as the auditor to assist them in drafting the Government-Wide Financial Statements, including reconciliations from the Fund Financial Statements.</p>
<p>The District's grant reimbursement system did not operate as designed, and a material amount of grant reimbursements were requested outside the District's period of availability for financial reporting.</p>
<p>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. The District's internal controls to identify and collect required certified payroll reports from contractors and subcontractors on contracted work exceeding \$2k approved by ODE and spent with ESSER funds. For one of the two projects selected for testing, certified payroll reports were not collected by District.</p>
<p>The entity had a bank account for the retainage on the construction project. The bank account was not booked into the financial statements and was not being reconciled by the District.</p>
<p>The Schedule of Expenditures of Federal Awards prepared by the District was not complete and accurate.</p>
<p>The trial balance as originally presented for audit, interfund transfers did not balance due to a line item error. This caused state school fund to be misstated as well. We recommend a stronger review of these accounts be added to the year-end close procedures.</p>
<p>Valuation of Investments Auditors found that the District's Zion Bank Investment account was not being adjusted to market value, resulting in \$7,990,358 impairment with was not recorded.</p>
<p>We [Auditor] noted that there were inadequate controls over reporting of payroll liabilities.</p>
<p>When presented for auditing the financial records contained material errors related to voided checks.</p>
<p>Worker's compensation expenses were not recorded.</p>
<p>Year-end account balances and their activity were not properly prepared and/or reviewed timely or accurately.</p>