

**OAKLAND UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDITS OF
BOND MEASURES B AND J REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES**

for the year ended June 30, 2017

Yano Accountancy Corporation

**OAKLAND UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDITS OF
BOND MEASURES B AND J REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES
TABLE OF CONTENTS**

	<u>Page(s)</u>
<u>Financial Audit Section</u>	
Report of Independent Auditors on the Financial Audit	1-2
Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances for the year ended June 30, 2017	3
Notes to Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances for the year ended June 30, 2017	4-5
Combined Supplementary Schedule of Bond Measures B and J Expenditures by Project for the year ended June 30, 2017	6-8
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Schedule Performed in Accordance with <i>Government Auditing Standards</i>	9-10
Schedule of Financial Audit Findings	11-12
<u>Performance Audit Section</u>	
Report of Independent Auditors on the Performance Audit	13-14
Schedule of Performance Audit Findings, and Status of Prior Year Financial and Performance Audit Recommendations	15
<u>Appendix – Performance Audit Information</u>	
Background	16-17
Objectives, Scope and Methodology	17-19

Nano Accountancy Corporation

Litigation and Financial Consulting • Forensic Accounting
Certified Public Accountants

Report of Independent Auditors on the Financial Audit

Honorable Members of the Board of Education
and Members of the Measure “B” and “J” Independent
Citizens’ School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

Report on the Financial Schedule

We have audited the accompanying Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances, funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2017, and the related notes (the “financial schedule”).

Management’s Responsibility for the Financial Schedule

Management is responsible for the preparation and fair presentation of this financial schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial schedule that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on this financial schedule based on our audit. We conducted our audit 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 the financial schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OUSD’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the combined Bond Measures B and J revenues, expenditures and changes in fund balances for the year ended June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial schedule as a whole. The combined supplementary schedule of Bond Measures B and J expenditures by project is presented for purposes of additional analysis and is not a required part of the financial schedule. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial schedule. The information has been subjected to the auditing procedures applied in the audit of the financial schedule and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial schedule or to the financial schedule themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial schedule as a whole.

Relationship of Bond Measures B and J Revenues and Expenditures to Total OUSD Revenues and Expenditures

We draw attention to Note 2 of the financial schedule, which describes that the accompanying financial schedule presents only the revenues and expenditures of Bond Measures B and J activities and is not intended to present a complete presentation of the revenues and expenditures of the OUSD for the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 on our consideration of the OUSD's internal control over financial reporting pertaining to Bond Measures B and J, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters pertaining to Bond Measures B and J. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance pertaining to Bond Measures B and J. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSD's internal control over financial reporting and compliance.



Oakland, California
March 27, 2018

**OAKLAND UNIFIED SCHOOL DISTRICT
 COMBINED SCHEDULE OF BOND MEASURES B AND J
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 for the year ended June 30, 2017**

	<u>Measure B</u>	<u>Measure J</u>	<u>Total</u>
Revenues:			
Net bond proceeds:			
Par value of bonds issued	\$ 65,000,000	\$ -	\$ 65,000,000
Bond premiums	8,144,803	-	8,144,803
Deposits to interest and sinking fund	(7,427,860)	-	(7,427,860)
Costs of issuance	(288,021)	-	(288,021)
Underwriter's discounts	(428,922)	-	(428,922)
	<u>65,000,000</u>	<u>-</u>	<u>65,000,000</u>
Interest earnings on unexpended proceeds	483,823	1,006,433	1,490,256
	<u>65,000,000</u>	<u>1,006,433</u>	<u>66,490,256</u>
Total revenues, net	<u>65,000,000</u>	<u>1,006,433</u>	<u>66,490,256</u>
Expenditures:			
Project expenditures	1,590,971	48,591,541	50,182,512
District staff costs and program consultants	30,120	10,955,564	10,985,684
	<u>1,621,091</u>	<u>59,547,105</u>	<u>61,168,196</u>
Total expenditures	<u>1,621,091</u>	<u>59,547,105</u>	<u>61,168,196</u>
Excess of revenues over expenditures (expenditures over revenues)	63,862,732	(58,540,672)	5,322,060
Fund balances			
Beginning of the year	2,491,291	192,545,917	195,037,208
End of the year	<u>\$ 66,354,023</u>	<u>\$ 134,005,245</u>	<u>\$ 200,359,268</u>

See accompanying notes.

OAKLAND UNIFIED SCHOOL DISTRICT
NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
for the year ended June 30, 2017

1. Description of Reporting Entity

The voters of Oakland, California passed School Facilities Bond of 2006 and School Facilities Bond of 2013 (also known as “Measure B” and “Measure J”, respectively) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278. Measures B and J authorized the issuance of up to \$435,000,000 and \$475,000,000, respectively, of bonds. The following excerpts from Measures B and J summarize the purposes of the bonds:

Measure B

“...To repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs ...”

Measure J

“...To improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety...”

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial schedule presents only the revenues and expenditures of Measure B and Measure J activities and is not intended to be a complete presentation of the revenues and expenditures of the Oakland Unified School District (“OUSD”).

Special revenue funds (governmental funds) are used by the OUSD to report Measure B and Measure J activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

OAKLAND UNIFIED SCHOOL DISTRICT
NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, Continued
for the year ended June 30, 2017

2. Summary of Significant Accounting Policies, Continued

Basis of Accounting

Measure B and Measure J activities are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when “susceptible to accrual” (i.e., when they become both measurable and available). “Measurable” means that the amount of the transaction can be determined and “available” means that revenues are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Expenditures for Capital Assets

Expenditures for capital assets are treated as current-year expenditures under modified accrual accounting.

Use of Estimates

The preparation of financial schedule requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

3. Contingencies

A former construction subcontractor has filed a claim against the former joint venture prime contractor (JV prime) and OUSD for non-payment by the former JV prime. OUSD has been informed by the former JV prime that it believes it has meritorious defenses against the subcontractor. The former JV prime has agreed to indemnify and hold OUSD harmless against any of the subcontractor’s claims. Accordingly, management believes that liabilities, if any, of OUSD resulting from this claim would not be material.

On April 6, 2017, the United States Attorney for the Northern District of California issued a criminal indictment for conspiracy to defraud the United States of America against two officers of a construction contractor on projects funded by Measure B and Measure J. The indictment does not directly involve any projects funded by either Measure B or Measure J for the year ended June 30, 2017. Effective November 6, 2017, the contractor and its officers were excluded from participation on Federally-funded contracts. This contractor has voluntarily withdrawn from all of its contracts with OUSD. OUSD management believes that any effects on the Measure B and J fund balances as of June 30, 2017 would not be material.

4. Subsequent Events

All subsequent events have been evaluated through March 27, 2018, the date that the financial schedule was available to be published.

**OAKLAND UNIFIED SCHOOL DISTRICT
COMBINED SUPPLEMENTARY SCHEDULE OF BOND
MEASURES B AND J EXPENDITURES BY PROJECT
for the year ended June 30, 2017**

Site	Project	Expenditures		
		Measure B	Measure J	Total
Project expenditures:				
Projects in pre-design:				
Fremont High School	Replacement	\$ -	\$ 1,595,786	\$ 1,595,786
Hillcrest Elementary School	Finishing Kitchen Upgrade	-	34,073	34,073
Kaiser Elementary School	Finishing Kitchen Upgrade	-	283,979	283,979
Laurel Elementary School	Finishing Kitchen Upgrade	-	98,397	98,397
Oakland Technical High School	Health Clinic	-	7,787	7,787
Piedmont Avenue Elementary School	Finishing Kitchen Upgrade	-	13,451	13,451
Total projects in pre-design		-	2,033,473	2,033,473
Projects in design:				
Burbank Elementary School	Fire and Intrusion Alarm	78,159	-	78,159
Centro Infantil CDC	Fire Alarm Replacement	32,600	-	32,600
Claremont Middle School	Kitchen Repair	-	34,554	34,554
Marcus Foster Educational Leadership Complex	Leadership Campus	-	1,959,417	1,959,417
Edna Brewer Middle School	Fire Alarm Design	85,499	-	85,499
Elmhurst Community Prep School	Boiler Replacement	-	8,985	8,985
Frick Impact Academy	Turf Field	-	374,859	374,859
Fruitvale Elementary School	Fire Alarm	56,132	-	56,132
Havenscourt Middle School	Science Lab	-	27,762	27,762
Hillcrest Elementary School	Play Structure	-	118	118
Joaquin Miller Elementary School	Fire Alarm Replacement	37,022	-	37,022
Manzanita Elementary School	Boiler Replacement	-	40,392	40,392
Manzanita CDC	Fire Alarm Replacement	7,140	-	7,140
Martin Luther King Jr Elementary School (PK-3)	Fire & Intrusion Alarm	36,113	-	36,113
Oakland Technical High School	Turf Field Replacement	48,510	-	48,510
Webster Academy Elementary School	Fire & Intrusion Alarm	3,449	-	3,449
Various Sites	Finishing Kitchen (Phase 1)	-	79,430	79,430
Total projects in design		384,624	2,525,517	2,910,141

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT, Continued
for the year ended June 30, 2017**

Site	Project	Expenditures		
		Measure B	Measure J	Total
Project expenditures, continued:				
Projects under construction:				
Bret Hart Middle School	Turf Field	-	93,148	93,148
Bridges Academy	Play Structure	-	92,228	92,228
Burbank Elementary School	Paving	-	1,062,541	1,062,541
Carl B. Munck Elementary School	Play Structure	-	96,834	96,834
Castlemont High School	Intensive Support	-	1,422,723	1,422,723
Crocker Highlands Elementary School	Play Structure	-	43	43
Frick Impact Academy	Intensive Support	-	1,244,368	1,244,368
Glenview Elementary School	Renovation/Replacement	-	7,549,701	7,549,701
Grass Valley Elementary School	Play Structure	-	113,218	113,218
Joaquin Miller Elementary School	Play Structure	-	20,520	20,520
MLK/Lafayette Elementary School (4-5)	Play Structure	-	88,321	88,321
Lincoln Elementary School	Play Structure	-	58,440	58,440
Madison Park Academy, Lower Campus & Garfield ES	Play Structure	-	164,250	164,250
Madison Park Academy	Expansion	-	2,059,311	2,059,311
Marcus Foster Educational Leadership Complex	The Center	127,372	8,026,602	8,153,975
McClymonds High School	Intensive Support	-	775,852	775,852
Montclair Elementary School	Play Structure	-	107,891	107,891
Skyline High School	Gym Roof	-	9,036	9,036
Washington Elementary School	Sankofa Expansion	-	463,501	463,501
Whittier Greenleaf Elementary School	Expansion	-	13,135,297	13,135,297
Technology Services	Educational Technology	117,974	-	117,974
Technology Services	E-Rate Facilities	747,612	-	747,612
Various Sites	Play Structure	-	5,215	5,215
Various Sites	Security Improvements	-	8,900	8,900
Various Sites	Video Maintenance & Troubleshooting	-	48,275	48,275
Total projects under construction		992,958	36,646,215	37,639,173

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT, Continued
for the year ended June 30, 2017**

Site	Project	Expenditures		
		Measure B	Measure J	Total
Project expenditures, continued:				
Projects completed:				
955 High Street	955 High Street Paving	-	57,285	57,285
Allendale ES, Garfield ES & Maxwell Park ES	Restroom	-	358,377	358,377
Bella Vista CDC	Fire Alarm Replacement	168	-	168
Bella Vista CDC	Portable Removal	-	331,004	331,004
La Escuelita Elementary School	New Educational Complex	134,680	-	134,680
Edna Brewer Middle School	Turf Field	-	856,653	856,653
Elmhurst Community Prep School	Restroom Renovation	-	1,646	1,646
Elmhurst Community Prep School	Turf Field	-	1,010,188	1,010,188
Fruitvale Elementary School	Restroom Renovation	-	235,962	235,962
Highland Elementary School	Portable Replacement	13,281	-	13,281
King Estates Middle School	Small Schools Renovation	34,854	-	34,854
Madison Middle School	Lighting Upgrade	-	182,765	182,765
Madison Middle School	Interim Housing Portables I	1,105	-	1,105
Madison Middle School	Interim Housing Portables	9,513	-	9,513
Manzanita Elementary School	Play Area Improvement	-	176,035	176,035
Oakland International High	Carter HV	-	918,187	918,187
Oakland International High	Turf Replacement	-	21,775	21,775
Oakland Technical High School	Lighting Upgrade	-	864,616	864,616
Parker Elementary School	Turf Field Replacement	-	1,272,562	1,272,562
Washington Elementary School	Interim Housing	4,178	-	4,178
Washington Elementary School	Interim Housing Phase II	5,712	-	5,712
Webster Academy ES & Lockwood ES	Student Restroom	-	840,273	840,273
Whittier Greenleaf Elementary School	Interim Housing Portable	5,002	-	5,002
Whittier Greenleaf Elementary School	Portable Installation Phase	4,896	-	4,896
Multi-Site	Restroom Renovation	-	88,125	88,125
Various Sites	California Solar Initiative	-	90,980	90,980
Various Sites	Portables Demolition	-	79,903	79,903
		<u>213,389</u>	<u>7,386,336</u>	<u>7,599,725</u>
Total projects completed		213,389	7,386,336	7,599,725
		<u>1,590,971</u>	<u>48,591,541</u>	<u>50,182,512</u>
Total project expenditures		1,590,971	48,591,541	50,182,512
Other Measure B expenditures:				
District staff		-	3,577,885	3,577,885
Consultants and professional services		30,120	5,402,224	5,432,344
Facilities Operations		-	1,018,951	1,018,951
Facility Master Plan		-	947,806	947,806
Close-Out adjustment		-	8,698	8,698
		<u>30,120</u>	<u>10,955,564</u>	<u>10,985,684</u>
Total other expenditures		30,120	10,955,564	10,985,684
		<u>\$ 1,621,091</u>	<u>\$ 59,547,105</u>	<u>\$ 61,168,196</u>
Total expenditures		\$ 1,621,091	\$ 59,547,105	\$ 61,168,196

Nano Accountancy Corporation

Litigation and Financial Consulting • Forensic Accounting
Certified Public Accountants

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Schedule Performed in Accordance with *Government Auditing Standards*

Honorable Members of the Board of Education
and Members of the Measure “B” and “J” Independent
Citizens’ School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances (the “financial schedule”), funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2017, and have issued our report thereon dated March 27, 2018, which included an explanatory paragraph describing the basis of accounting and the presentation of the financial schedule. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OUSD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OUSD’s internal control. Accordingly, we do not express an opinion on the effectiveness of OUSD’s internal control.

A *deficiency in internal control* 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, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the combination of deficiencies described in Findings 2017-01 and 2017-02 to be a material weakness.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and other matters, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSD's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Yano Accountancy Corporation

Oakland, California
March 27, 2018

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL AUDIT FINDINGS
June 30, 2017**

Finding 2017-01 – General Counsel Labor and Benefits Charged to Measure J Include Amounts For Which Measure J Did Not Benefit

Criteria	California Education Code Section 15100 identifies the allowable uses of bond proceeds by school districts. The Alameda County Counsel’s impartial analysis of Measure J, passed by the voters on November 6, 2012, states in part that bond proceeds “...may not be used for any other purpose, such as administrator salaries...”
Observation and Effect	<p>OUSD charged \$168,494 in salaries and benefits of OUSD’s Legal Advisor, who retired in December 2016, to Measure J during the year ended June 30, 2017, including \$146,543 in January 2017. We questioned the reasonableness of the amount charged, since only 50% of the Legal Advisor’s salary and benefits for July-December 2016 was to be charged to Measure J, which OUSD calculated at \$75,852.</p> <p>Measure J was overcharged \$92,642 during the year ended June 30, 2017. This amount of salaries and benefits should have been charged to a fund other than Fund 21. OUSD management agreed with the observation and reduced District Measure J staff costs by \$92,642.</p>
Cause	OUSD did not have adequate internal controls to ensure that Legal Advisor labor dollars charged to Measure J were properly calculated.
Recommendation 2017-01	OUSD should develop and implement appropriate procedures and controls to ensure that OGC labor and benefits charged to Measure J are properly calculated.
Views of OUSD Management	We agree with the observation, and have reduced Measure J District Staff expenses by \$92,642 for the year ended June 30, 2017.

OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL AUDIT FINDINGS, Continued
June 30, 2017

Finding 2017-02 – Comingling of Measure A Bond Interest Income
With Measures B and J Bond Interest Income

Criteria	Finding 08-46 of the Financial and Compliance Audit of OUSD for the year ended June 30, 2008, states in part that OUSD "...inappropriately comingled the proceeds of bond funds authorized by Measure A..." Finding 08-46 also states that OUSD received a legal opinion that "...bond proceeds must be segregated and tracked..."
Observation and Effect	<p>OUSD management transferred \$5,700,062 of Measure A accumulated interest earnings to Measures B and J during the year ended June 30, 2017. This transfer is a comingling of Measure A accumulated interest earnings with Measures B and J accumulated interest earnings, and is not consistent with the legal opinion that bond proceeds must be segregated and tracked.</p> <p>OUSD management agreed with our observation and, as an audit adjustment, transferred the \$5,700,062 back to Measure A.</p>
Cause	OUSD management did not segregate and allocate interest earnings in accordance with the legal opinion that it received.
Recommendation 2017-02	Measure A bond interest earnings should be accounted for separately, and not be comingled and accounted as part of either Measure B or Measure J bond proceeds.
Views of OUSD Management	We agree with the observation, and have transferred the funds back to Measure A as of June 30, 2017.

Nano Accountancy Corporation

Litigation and Financial Consulting • Forensic Accounting
Certified Public Accountants

Report of Independent Auditors on the Performance Audit

Honorable Members of the Board of Education
and Members of the Measure “B” and “J” Independent
Citizens’ School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances, funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2017, and have issued our report thereon dated March 27, 2018, which included explanatory paragraphs on supplementary information and the basis of accounting and the presentation of the financial schedule. We conducted our audit 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 on our consideration of the OUSD’s internal control over financial reporting as it pertains to OUSD and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

We also have performed a performance audit of the expenditures of bond proceeds from Measures B and J for the year ended June 30, 2017. OUSD management is responsible for ensuring that bond proceeds from Bond Measures B and J, including related earnings on unexpended bond proceeds, are accounted for and expended only in accordance with the proposition approved by the voters. OUSD management is also responsible for establishing and maintaining adequate internal controls over Measure B bond proceeds and expenditures to ensure that bond proceeds are accounted for and expended only in accordance with the proposition approved by the voters. Our responsibility is to perform an audit to evaluate the OUSD’s: 1) compliance with Measure B to ensure that Measure B bond proceeds have been expended only on the school facilities projects specified in the Measure B legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background, and Scope, Objectives and Methodology

Measure B legislation requires "...an annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects listed in..." Exhibit A. Measure J legislation requires "...an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List."

The Appendix includes relevant background information, and the scope, objectives and methodology to achieve the performance audit requirements of the Measure B and Measure J legislation.

Performance Audit Findings

Financial Audit Findings 2017-01 and 2017-02 are also applicable to the performance audit, and are incorporated into the performance audit by reference.

Conclusion

Based upon the performance audit procedures performed and the results obtained, we have met our audit objectives. We have evaluated the OUSD's: 1) compliance to ensure that Measure B bond proceeds have been expended only on the school facilities projects specified in the Measure B and Measure J legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

Purpose of this Report

The purpose of this performance audit report is solely to ensure that bond proceeds have been expended only on the school facilities projects approved by Measures B and J legislation, and the results of that testing, and not to provide an opinion on the effectiveness of the OUSD's internal control over ensuring compliance with Measures B and J expenditure limitations. Accordingly, this performance audit report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Yano Accountancy Corporation". The signature is written in a cursive, flowing style.

Oakland, California
March 27, 2018

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF PERFORMANCE AUDIT FINDINGS, AND
STATUS OF PRIOR YEAR FINANCIAL
AND PERFORMANCE AUDIT RECOMMENDATIONS**

FINDINGS IN WHICH VIEWS OF THE OUSD MANAGEMENT WERE REQUESTED

Financial Audit Findings 2017-01 and 2017-02 are also applicable to the performance audit. The Views of OUSD Management included in the Schedule of Financial Audit Findings are incorporated by reference.

FINDINGS THAT DO NOT REQUIRE THE VIEWS OF THE OUSD MANAGEMENT

The evaluation of the OUSD's procurement policies and procedures during the performance audit for the year ended June 30, 2010 by other auditors included a determination that such policies and procedures complied with state laws. Accordingly, our procedures focused on the OUSD's compliance with its policies and procedures, and internal controls to facilitate continued compliance.

Our procedures in the following areas did not identify any noncompliance, and no deficiencies in internal control, that we consider significant in the context of our audit objectives. Because we tested less than 100% of transactions, we may not detect all instances of noncompliance or deficiencies in internal control that are significant to the audit objectives.

- Our non-labor testing included all new construction contracts of \geq \$15,000. Our evaluation of the bids disclosed no instances of noncompliance with the OUSD policies, and found that all contracts were awarded to the lowest responsible and responsive bidder. In addition, we found that the Board approved all contracts and change orders.
- Our testing of non-labor expenditures included sixteen different non-construction contracts. We found no instances of non-compliance with the OUSD procurement policies and procedures.

STATUS OF PRIOR YEAR FINANCIAL AND PERFORMANCE AUDIT FINDINGS

There were no prior year financial and performance audit findings that required follow-up action by OUSD.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURES B AND J PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY
June 30, 2017

Appendix

BACKGROUND

The voters of Oakland, California passed School Facilities Bond of 2006 (also known as “Measure B”) and School Facilities Bond of 2012 (also known as “Measure J”) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278, authorizing the issuance of up to \$435,000,000 of Measure B bonds and \$475,000,000 of Measure J bonds for school renovation, modernization and new construction. The following excerpts from Measures B and J summarize the purposes of the bonds:

Measure B

“...To repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs ...”

Measure J

“...To improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety...”

Performance Audit Requirements

Measure B legislation requires “...an annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects listed in...Exhibit A.” Measure J legislation requires “...an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List.”

We performed our performance audit for the year ended June 30, 2017 to comply with the Measure B and Measure J performance audit requirements in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Role of the Independent Citizens’ Oversight committee

Measures B and J require establishment of an independent Citizens’ Oversight committee (“Oversight Committee”) “...to ensure bond proceeds are spent only for the school facilities projects listed...” Our performance and fiscal audit report assists the Oversight Committee in accomplishing its mandated responsibilities.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURES B AND J PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued
June 30, 2017

Appendix

Use of Bond Proceeds

Measure B Bond proceeds have been expended on 23 different school renovation, modernization and new construction projects. Of the 23 projects, 9 are in design, 4 are in construction and 10 projects are complete (unaudited).

Measure J Bond proceeds have been expended on 54 different school renovation, modernization and new construction projects. Of the 54 projects, 6 are in pre-design, 8 are in design, 23 are in construction and 17 projects are complete (unaudited).

In addition to amounts expended on specific projects, Measure B and Measure J bond proceeds have been expended on District staff and consultants whose activities directly support the renovation, modernization and construction efforts.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objectives and scope of our performance audit of the Bond Measures B and J renovation, modernization, and building program were to: 1) obtain reasonable assurance on whether proceeds, including interest on unexpended proceeds, from Measures B and J were expended only for purposes described in the bond measures; 2) assess the OUSD's Measures B and J procurement policies and procedures for compliance with California law; 3) assess the adequacy of internal controls over Measures B and J procurement, change orders and invoice review and approval processes; 4) assess that adequate controls are in place for timely payment of bond program obligations; and 5) identify alternatives that could achieve Bond Program goals and objectives more effectively and efficiently. Our performance audit only addressed matters relating to the OUSD's Measures B and J expenditures for the fiscal year ended June 30, 2015 and does not extend to any financial or performance audit reports pertaining to other the OUSD funds or programs, or to the OUSD taken as a whole.

The following methodology was used to accomplish our performance audit objectives:

1. Met with the OUSD Measures B and J Program officials to obtain an understanding of the Measures B and J renovation, modernization and construction program, including policies and procedures for project management, procurement, change orders, prevailing wage compliance monitoring, and invoice processing.
2. Evaluated the OUSD's policies, procedures for Measures B and J projects procurement, change orders and invoice processing, and related internal controls, to determine whether policies and procedures were consistent with applicable California laws and Measure B provisions.
3. Evaluated internal controls over Measures B and J procurement, change orders and invoice processing to assess their ability to provide reasonable assurance of compliance with the applicable California laws and Measures B and J provisions.
4. Evaluated high-dollar expenditures, plus a random sample of all other expenditures for the year ended June 30, 2017 to obtain reasonable assurance on whether those expenditures were made only for purposes described in the bond, for valid obligations, and in accordance with contract provisions.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURES B AND J PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued
June 30, 2017

Appendix

5. Verified that the OUSD had a program to monitor contractor compliance with State prevailing wage requirements.

In addition, we conducted a financial audit of the Combined Schedule of Measures B and J Revenues and Expenditures for the year ended June 30, 2017. We conducted this financial audit 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.

In accordance with generally accepted government auditing standards, we considered the results of previously issued reports, including follow-up on prior year performance and fiscal audit recommendations.

Selection of Expenditures for Testing

OUSD management provided us with a database of expenditures, which we reconciled to total reported Measures B and J expenditures of \$1,621,091 and \$59,639,747, respectively, prior to any audit adjustments. We analyzed the database of expenditures to achieve a testing strategy that would test 100% of the high-dollar expenditures (either individually or cumulatively) and test a representative sample of all other expenditures.

Non-Labor

All non-labor was treated as one pool for testing purposes, since substantially all expenditures could be funded by either Measure B or Measure J proceeds. The following summarizes the non-labor pool:

	Number of Items	Total Dollar Amount
High-dollar expenditures	95	\$ 35,746,807
Items subject to random sampling	1,497	21,552,100
Low dollar items excluded from testing	228	18,927
Net zero items	173	-
Grand total	1,993	\$ 57,317,834

High-dollar as a percent of total	62%
-----------------------------------	-----

Expenditures on 95 line items totaled 35,746,807, or 62% of total non-labor expenditures charged to Measures B and J. We tested 100% of these items. We used computer-based monetary unit sampling (“MUS”), a type of random sampling frequently used in both financial and performance audits, to select 75 additional non-labor items for testing.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURES B AND J PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY, Continued
June 30, 2017

Appendix

We excluded the following from non-labor testing: 1) 173 line items with net dollar amount of zero; and 2) 228 line items which totaled \$18,927.

Labor

All labor was treated as one pool for testing purposes. The following summarizes labor expenditures by employee group, including total benefits, before audit adjustments:

	Number of Employees	Total Dollar Amount
Labor:		
Full-time (including those who did not work the entire year)	27	\$2,202,831
Community Engagement Office (partial allocation)	4	205,428
District Counsel (partial allocation)	1	147,817
Budget Office (partial allocation)	1	31,183
Others with occasional charges	153	241,885
 Total labor	 186	 2,829,144
Benefits	N/A	1,113,860
 Total labor and benefits	186	\$ 3,943,004
 Benefits as a percentage of total labor		39.37%

We confirmed that the 32 full-time employees were actually resident at the High Street facilities location. We also confirmed three employees' job classifications and monthly salaries to the School Board-approved salary schedule.

We analyzed benefits by type (for example, pension contribution, payroll taxes, etc.) as a percentage of labor (for all but health and welfare) and by headcount (for health and welfare, as these expenses are more dependent on the employees' existence as OUSD employees instead of their salaries).