

2022-23 AUDIT FINDINGS

This is a list of comments and 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, including 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.*

Comments Regarding ADM: District did not follow the average daily membership (ADM) rule for calculating each student on active roll and had various grades under-reported to the Oregon Department of Education for the year ended June 30, 2023. District did not follow the average daily membership (ADM) rule for dropping students after 10-days for the year ended June 30, 2023. The District did not comply with ORS 581-023-0006(4b). Per Oregon Department of Education guidelines, the District should have dropped the students and updated their reports.

Comments Regarding Bid Requirements: During the Auditor's testing of the bids/quotes process for the District, the Auditor noted an instance for a vendor where the District did not perform bidding or quoting procedures in accordance with ORS 279, ORS 279A, ORS 279B, and ORS 279C. During the Auditor's testing of bids/quotes, the Auditor noted two instances where the documentation for quotes for abatement services were missing. Public contracts and purchasing ORS 279A, ORS 279B.070, ORS 279C. Appropriate documentation was not maintained to support compliance with intermediate procurement requirements (purchases and contracts in excess of \$10,000), and two vendors with multiple procurements were segregated to keep them underbid requirement thresholds. District did not comply with ORS 297B.070, the district did not obtain three informally solicited competitive price quotes and did not keep record of amounts of quotes received for the year ended June 30th, 2023. District did not accurately follow the Public contracting and purchasing laws.

Comments Regarding Budget Process (continued): During testing of the Adopting the Budget Resolution, the Auditor noted the District using reserves for appropriation. District failed to meet publication requirements under ORS 294.473(3)(b) - no evidence of publication for notice of supplemental budget. During the Auditor's testing of the 2023-24 budget, the Auditor noted that the excel document provided to test against form ED-1 differences as compared to the full detailed budget document. For the year ended June 30, 2023, the budget maintained by the District was out of balance. In addition, the amounts budgeted for transfers in and transfers out did not agree, which is in violation of ORS 294.361. During the Auditor's testing of the adoption of the budget, the District did not include the fund appropriations with the resolution. Compliance with Oregon Budget Law - appropriation transfers: The District passed several resolutions for transfers of appropriations of budgeted amounts, but did not record the entries into the accounting system. During the year, the District passed several resolutions for transfers of appropriations of budgeted amounts, but did not record the entries into the accounting system. Entries should be posted as resolutions are passed to maintain compliance with Oregon Budget Law. The board adopted total appropriations in the Capital Reserve Fund that was 20.44% more than the proposed budget but there was no publication of a revised "Notice of Budget Hearing and Financial Summary" and no additional public hearing.

Comments Regarding Budget Process: During our review of the budget process, the Auditor noted that the District did not publish a notice for their Budget committee meeting in accordance with ORS 294.426. Budgeted Transfers in and out were not in balance in the adopted or final Budget, ORS 294.426(5b). During the Auditor's review of the budget process, the Auditor noted that the District did not designate a budget officer in accordance with ORS 294.331. Failed to meet 5-30 day window for publication of budget committee meeting notice, ORS 294.438(1) No documented evidence of a publicized notice for the budget hearing, and ORS 294.388 Material variances in 2023-24 fiscal year's budgeted beginning fund balance. Budget legally required: ORS 294.441 Adopted Budget for the 2022-23 fiscal year included incorrect account coding within budget categories, ORS 294.463. A budget resolution to change the original Budget did not state the purpose for the authorized expenditure as required by ORS 294.463. Budget Resolution did not include an explanation of the reason for the transfer of appropriations as required by ORS 294.463. Appropriation resolution amounts do not agree with Budgeted amounts in certain instances. District did not advertise for the budget committee meeting and published advertisement 2-days prior to the budget hearing. During the Auditor's review of the 2022-23 adopted budget, the Auditor noted that the School District did not include the Student Body Fund appropriations on the face of their budget resolution. The Auditor recommends Student Body funds be presented as part of the total Budget. During the Auditor's review of the budget adjustment, the Auditor noted that the District made budget adjustment after the District had overspent appropriations.

Comments Regarding Filings: The District had delinquent filing of the current year summary of revenues and expenditures with the Secretary of State, which is due within six months of year-end of December 31 each year. The District did not comply with ORS 279C.305. A list of publish improvements known to the District was not filed with the Commissioner of the Bureau of Labor. The District submitted inaccurate 941 forms to the IRS.

Comments Regarding Insurance: There were deposits in a credit union account that exceeded NCUSIF insurance (\$250,000) and the credit union was not an ORS Qualified Depository so amounts in excess of NCUSIF insurance are not covered by the Oregon Public Funds Collateralization Program (PFCP). The uninsured balance was \$29,386 as of June 30, 2023. The District did not have fidelity insurance coverage as required by Oregon Minimum Standards. District's cash balances exceeded FDIC insurance by \$1,813,743.

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| <p>Comments Regarding Program Compliance: Programs funded from outside sources: timely maintenance of grant documentation related to drawings and coding was not in compliance with ODE requirements for programs funded by outside sources. The Auditor noted multiple instances where gift cards were purchased for a program and then were clearly used to purchase supplies etc. - instead of going through the proper control process for purchasing.</p> |
| <p>Comments Regarding Student Investment Account (SIA): During our testing of SIA, we noted that the District did not appropriately account for the unspent fund balance for fiscal year-end. During our testing of SIA expenditures, we noted four instances where current fiscal year SIA funds were expended for goods and services outside the allowed period for current fiscal year funds. During our review of SIA expenditures testing, we noted an instance where the expenditure was not properly documented. There was a reconciliation tab for the total expenditure. However, the corresponding tabs did not reflect the allocations per the recon and the amount being expended. During Auditor's testing of SIA disbursements, the Auditor noted the District did not appropriately account for the unspent fund balance for fiscal year-end.</p> |
| <p>Comments Regarding Teacher Experience: During our testing of the District's Teacher Experience, we noted that the District did not submit finalized complete data to ODE for the 2023 fiscal year. During the Auditor's testing of teacher experience, the Auditor noted an instance where a teacher's years of experience were not up to date.</p> |
| <p>Comments Regarding Transportation: During the Auditor's review of the District's transportation report, the Auditor noted an error in the form. The form indicated that the reported non-academic miles do not match the reported non-reimbursable mileage. Noncompliance with ORS 279B.070 for failure to comply with documentation requirements for intermediate purchases regarding purchase of a Chevy Tahoe. Long-term debt and vehicles and equipment were not properly recorded at June 30th, 2022. The loan proceeds went directly to the company selling the vehicles to the District, and no journal entry was made to capture the transactions.</p> |
| <p>Findings Regarding Accounting Practices: During our testing of debt, the District did not record the addition of new debt to proceeds as required by generally accepted accounting principles. During the course of the audit, the Auditor determined that the District does not have internal controls in place sufficient to determine whether athletic gate receipt income collected was recorded into the accounting records. The District's current process is to store the receipts for each game in a locked cabinet at the office, then compile and deposit the amount received for the season at the end of the season. Weak processes over grant draw, grant recordkeeping, and accounting. No month-end or year-end closing procedure that ensures invoices are pulled back into the closing fiscal year is being performed. The Auditor noted multiple instances where purchases made with p-cards did not have documentation supporting the purchase, including review and approval. The District recorded a material amount of state grant revenue as local revenue. The District conducted multiple journal entries that were materially misstated and the mistakes were not caught by the District.</p> |
| <p>Findings Regarding Accounts Payable: Auditors noted that in testing the year-end accounts payable liability, they were reported inaccurately. During our accounts payable testing, a batch of checks was dated incorrectly, excluding over \$160,000 from accounts payable and showing as outstanding items on the cash reconciliation.</p> |
| <p>Findings Regarding AL#10.553, 10.555, 10.559 Child Nutrition Cluster: Reviews of reimbursements for the Child Nutrition Program Cluster were not evidenced by a signature and date. The District did not submit a PLE or opt into the appropriate waiver program. The District did not calculate its average paid lunch pricing requirement for the fiscal year ended June 30, 2023. Compliance Requirement: Procurement, Suspension, and Debarment Procurement: Two vendors provided goods or services in excess of the micro-purchase threshold without having been procured through a competitive process and were not documented. One of the procurements was of the nature that an emergency procurement would have been allowed, however, the District did not document justification for a noncompetitive procurement as required. Verification of Free and Reduced Price Applications - The District did not select or verify a sample of applications that it approved for free and reduced-price meals during the District's fiscal year ending June 30, 2023. Eligibility for Free and Reduced Price Meals: During a transitional year where all meals were provided free to all students under various funding sources, the District did not actively solicit applications from households and did not process those applications that were received until nearly six months later.</p> |
| <p>Findings Regarding AL#81.414 High School Equivalency Program, Better Together Central Oregon: Compliance Requirements: B-Cost Principles. The District did not request a waiver from the federal agency approving the prior year's costs prior to charging the program costs. The District's internal controls over compliance did not include sufficient controls to ensure that only costs incurred during the current budget period would be included in their request for reimbursement. The District did not have a control in place to require time and effort support for employees whose time was allocated to more than one cost objective.</p> |
| <p>Findings Regarding AL#84.027 and 84.173 IDEA Cluster: The District misstated the expenditures for this grant on the schedule of expenditures of federal awards. Internal controls should be in place to ensure that the District does not over-expenditure indirect costs.</p> |
| <p>Findings Regarding AL#84.425 Elementary and Secondary School Emergency Relief Fund (ESSER): Compliance Requirement: N-Special Tests and Provisions (Construction of Assets): The District did not collect the certified payroll reports from the contractors during the year under audit for many contractors within the ESSER grant. Compliance Requirement: N-Special Tests and Provisions (Construction of Assets); Type of Finding: Significant Defiance in Internal Controls over Compliance: The District did not implement an effective internal control over compliance sufficient to ensure compliance with the requirement to obtain certified payroll reports for work performed using ESSER program funding. The District misstated the expenditures for this grant on the schedule of expenditures of federal awards. The District misstated the pass-through amounts to sub-recipients for this program. The District reported a significant amount of items as equipment and real property that should not have been reported as such. Payments for expenditures associated with debt service obligations were expensed to the programs but not disbursed to the debt holder. Special Tests: The District issued a \$835,960 payment using GEER II funds (84.425C) for fiber internet installation prior to receiving and reviewing contractor-provided certified payroll reports.</p> |

Findings Regarding Associated Student Body (ASB) Accounting: During audit procedures related to student body accounting, the auditor identified internal control deficiencies related to the lack of oversight in the accounting for ASB balances. ASB accounting is performed outside of the Finance Office using stand-alone software at the school level. While the auditor identified existing internal controls, such as bank reconciliations being performed and reviewed, the information provided in the bank reconciliation package was insufficient for a reviewer to determine whether the bank balance was in agreement with the total of all student activity fund balances, and the auditor noted that cash deposits were held on site at the high school until being deposited in the following month. The auditor noted several individual student body accounts that were in a deficit standing and had not been reviewed. The auditor noted this check signers at the Middle and High schools are employees who are also in charge of recording and custody of the bank account, functions which should be segregated. Because student activity transactions are accounting for outside of the District's accounting system, activity is journalized in monthly based on summaries provided by the schools. The information does not appear to be reviewed in detail prior to being recorded into the accounting software, so errors may not be detected or prevented.

Findings Regarding Audit Preparation: The District was not adequately prepared for the audit at the agreed upon date. The District was not ready for the audit at the beginning of our agreed upon time.

Findings Regarding Bank Reconciliation: The District only maintains an electronic excel document for their bank reconciliations which can be edited anytime. The District made subsequent corrections without updating documentation of the timing of preparation and review. This type of documentation does not allow the Auditors to determine when the reconciliation was prepared and reviewed and does not provide sufficient audit evidence to determine if the reconciliation was completed in accordance with good internal control procedures. The District was not closing statements after reconciliation, allowing for changes to the cash accounts which created large errors in the records as presented for audit. The District's bank reconciliations presented multiple misstatements. The combination of all misstatements resulted in a material misstatement. Bank reconciliations were not performed in a timely manner throughout the year.

Findings Regarding Bid Requirements: For the year ending June 30, 2023, the District failed to perform the necessary bidding and proposal requests prior to awarding contracts or purchasing products. The largest agreement that was awarded during the year was for HVAC construction at 4 school locations, but no specific amount was included in the master agreement, but is likely to result in costs between \$7,000,000 and \$9,000,000.

Findings Regarding Capital Assets: Auditors noted in testing of capital assets that there were capital asset additions in the current and prior years that were not reported. Chart of accounts - transaction recording and classification: Several items were classified to incorrect accounts, such as grant award payback, contract services, and capital outlay items. During our testing of capital assets, we noted that the District did not include all current year capital assets in the capital asset register. During the year, the District entered into a financing agreement for buses and did not record the capital outlay or other financing source in the governmental fund statements, and did not include the bus purchase on the capital asset addition listing. The District's budget for capital project and special revenue fund were out of balance which is a violation under the requirements of Oregon Revised Statute (ORS) Chapter 294, budgets legally required. General Ledger Maintenance and Reconciliation: Audit procedures identified multiple material and pervasive errors related to the transaction processing of expenditures, revenues, and other major transactional cycles. Material adjustment was required to correct year-end balances across nearly every major account balance during the audit fieldwork. Normal procedures in place for year-end cut-off, including reconciliations of cash accounts, reconciliations of accounts receivable, reconciliation of accounts payable, inventory counts, and reconciliation of capital assets, did not occur or were significantly delayed. The District did not add the deletion of the Construction in Progress to the corresponding capital asset category. In addition, other amounts of capital assets in the general ledger were not added to the capital asset register. The District incorrectly recorded additions for Capital Assets, causing a material misstatement, which was subsequently corrected.

Findings Regarding Contracting: The District should have control processes in place to ensure that monitoring procedures are in place for large contracts. The Contractor's Application for Payment for the HVAC project included retainage payable that had not been recorded on the District's records and an adjustment was required to recognize the incurred expense. In addition, no retainages being withheld on the roofing project, and retainage contracts greater than \$500k are required by Oregon law to be deposited into a separate interest-bearing escrow account, which did not occur. The District is also required to pay a BOLI fee on prevailing wage projects which was not paid for or filed.

Findings Regarding Control Environment and Management Oversight: The Board of Director's response to inappropriately processed transactions, management override of internal control, instances of noncompliance and other indications of incompetence from key members of management were insufficient. Continued lack of oversight and incompetence during the transactional processing resulted in pervasive material errors during the audit. Audit testing identified several instances where controls that were in place and effective during the 2022 fiscal year were no longer being implemented during the 2023 fiscal year or where past procedures and policies were overridden or ignored. These controls included, but were not limited to, the review of monthly financial reports, superintendent review and approval over purchase orders, back up documentation to support recorded expenditure transactions, as well as many others.

Findings Regarding Financial Statement Preparation: The District's Business Manager 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. In addition, we verify the financial statements, including note disclosures, contain all of the elements required to comply with generally accepted accounting principles. We do 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 Section 1.2 of the Code of Professional Conduct. However, our assistance in drafting the financial statements described above does produce a significant deficiency in the District's internal control system. District has elected not to have internal control system designated to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes. 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. Financial Reporting: Internal controls associated with recording of expenditures did not include proper evaluation of the expenditure to meet federal compliance requirements for Allowable Cost/Cost Principles. Financial Reporting Year-End Close: Cash, accounts receivable and related revenue, and related revenue, and liabilities and related expenses were not properly recorder at June 30, 2023. 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 statements. Year-end account balances and their activity were not properly prepared and/or reviewed timely or accurately. The Schedule of Expenditures of Federal Awards prepared by the District was not complete and accurate.

Findings Regarding GASB Guidance: District did not implement GASB Statement No. 96, Subscription Information Technology Arrangements (SBITA), the potential capital outlay and debt service expenditures in each major fund could not be reasonably determined. The District did not report all of the subscription based information technology arrangements in the implementation of GASB Statement No. 96. The District implemented GASB Statement NO. 96, Subscription-Based Information Technology Arrangements (SBITA) reporting standards this year and management prepared workpapers summarizing the SBITA activity and amortization of the assets based on discussions during fieldwork. The original schedules included \$166k related to I-Ready, but in the auditor's analysis, the total SBITA including I-Ready and prepaid electronic curriculum totaling \$1,150,110 and the schedules were revised and discussed with management.

Findings Regarding Internal Controls: Internal Control Over Financial Reporting: District has elected not to have an internal control system designated to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes. The District had limited internal controls over various processes within accounting functions. Some examples include general oversight over balance sheet accounts, deposits, and review and approval over bank reconciliations and journal entries. Internal Controls and Compliance with Special Tests and Provisions - Verifications: The District did not perform verification of free/reduced meal applications until March 2023. Internal Controls and Noncompliance Related To Reporting: The District did not have adequate internal controls over meal claiming process and as a result, errors were made and not detected. Internal Controls Over Accounting: There is inadequate segregation of duties within the business office. Internal Controls over Compliance with State Laws: The Board approved a transfer of appropriations in late-June; however, those additional appropriations were insufficient to prevent over-expenditures. The District's internal controls did not prevent expenditures beyond what was legally authorized, and did not identify that a supplemental budget was required to ensure sufficient spending authority. While testing internal controls, it was determined that certain processes were all being performed by the same person without adequate monitoring. This was taking place during a time of staff transition within the business and finance office. 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 Section 1.2 of the Code of Professional Conduct; our assistance in drafting the financial statements described above produces a significant deficiency in the District's internal control system. The Education Service District has elected not to have an internal control system designated to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes.

Findings Regarding Processing of Payroll: Testing of the District's payroll during the 2023 fiscal year identified several material errors. Incorrectly processed and documented employee draws were made, multiple instances of employees paid wages outside of the approved and documented employment contracts, and multiple other issues related to the accrual and payment of employee wages, taxes, and benefits were notes. Further investigation into District's processing of payroll identified several instances where the controls within the payroll software utilized by the District were circumvented or went unused. No reconciliations of wages, taxes, or benefits occurred during the fiscal year and significant errors were identified as a result. During the audit, it was determined that the District did not have adequate monitoring regarding certain balance sheet accounts, such as repaid expenses and accrued payroll liabilities.

Findings Regarding Public Employees Retirement System (PERS): PERS rates assigned within the District's accounting system were incorrect for the current and prior year, resulting in a material difference in the expense and liability account. The District did not conduct regular reconciliations of PERS expenditures and related liability.

Findings Regarding Segregation of Duties: 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. Segregation of Duties: 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. Accounting duties for main transaction cycles were concentrated on one individual which results in incompatible functions to provide proper segregation of duties. The Administration Department 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.

Findings Regarding Year End: The District's accounts receivable were misstated at fiscal year end. The District's accrued compensated absences were misstated at fiscal year end. The District's deferred revenues were misstated at fiscal year end. The District's fiscal year end property tax revenues, receivables and related deferred revenues were misstated. The District's inventory were misstated at fiscal year end. The District's payroll liabilities were misstated at fiscal year end. The District's prepaid expenditures were misstated at fiscal year end.