

SCHOOL DISTRICT No. 1J, MULTNOMAH COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS (Continued)

Dollar threshold used to distinguish between type A and type B programs	\$ 1,519,256
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings reported.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2017-001

Condition: When the District presented the original trial balance and financial statements for audit, the District did not recognize an accounts payable of approximately \$2.05 million for the construction of capital assets. The District's internal control over the processing of year-end accounts payable failed to recognize the asset and accounts payable for fiscal 2017 and instead recorded the transaction in fiscal 2018. As a result, assets and liabilities were understated in the District's Statement of Net Position and the GO Bond Fund liabilities were understated and fund balance was overstated by the \$2.05 million.

Corrective Action: The District researched and reviewed the current internal control processes and implemented additional and repetitive training for the Accounts Payable team. During November and December 2017 four sessions of training were held. The District continues to provide periodic training to ensure the staff has the knowledge and skills to perform this task. The District has also implemented multi-departmental strategies to ensure all expenses are recorded in the correct fiscal year.

Finding 2017-002

Condition: When the District presented the original trial balance and financial statements for audit, deferred outflows and net position were overstated by approximately \$18 million. The District enlisted an outside contractor to assist in calculating GASB 68 pension journal entries and disclosures. This calculation incorrectly included \$18 million in pension contributions

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2018

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Finding 2017-002 (Continued)

subsequent to measurement date that had not actually been made. As a result, deferred outflows and net position were overstated in the District's Statement of Net Position by approximately \$18 million.

Corrective Action: The Director of Financial Services has managed CAFR preparation for the 2017-18 fiscal year, including a thorough review of any work prepared by contractors. In addition, her preparation has been reviewed by the CFO.

Finding 2017-003

Condition: When the District presented the original trial balance and financial statements for audit, accrued interest was overstated by approximately \$5.6 million. In addition, there were misclassifications within the net position category of approximately \$37 million. The District's internal control over year-end financial statement preparation failed to detect and correct incorrectly calculated accrued interest and net position classifications at year end. As a result of the accrued interest error, liabilities were overstated and net position understated in the District's Statement of Net Position by \$5.6 million. As a result of the net position misclassifications, investment in capital assets and restricted net position were overstated by approximately \$35.5 million and \$1.5 million, respectively and unrestricted net position was understated by approximately \$37 million.

Corrective Action: The Director of Financial Services has managed CAFR preparation for the 2017-18 fiscal year, including a thorough review of any work prepared by contractors. In addition, her preparation has been reviewed by the CFO.

Finding 2017-004

Condition: Matching contributions from the District and from in-kind services provided by a subcontractor for the College Ahead Program and Mobilizing for College were incorrectly determined and reported. The errors occurred in the Annual Performance Reports (APR) for the reporting period from October 1, 2015 through September 30, 2016. The matching contributions tested in our sample (7 of 55) were incorrectly calculated or did not have supporting documentation. Our tests determined there were \$20,409 of known and \$82,099 of likely questioned matching contributions reported on the APRs. The District is required to meet its matching contribution requirement by the end of the 7th year of the award. Therefore, future matching contributions could be

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2018

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

Finding 2017-004 (Continued)

adjusted to correct the aforementioned questioned contributions. The control over recording and reporting matching information was not designed to review invoices from external vendors for amounts claimed as matching contributions. In addition, the control failed to identify a spreadsheet calculation error. The District over reported its matching contributions for the College Ahead Program and Mobilizing for College in their Annual Performance Reports.

Corrective Action: District finance and program staff now meet bi-weekly and have instituted joint review of processes and documentation. The District consulted with other large GEAR UP grant holders, culminating in a joint finance/program visit to LA Unified School District, which has a program similar to Portland's and is recognized for their effective management processes around their GEAR UP grant. As a result of the visit, the District has hired a business operations analyst in the GEAR UP program and is implementing new processes, accounting manuals and software. The District is also reestablishing a joint grant management team to improve management processes across all grants.