

School District #1J, Multnomah County, OR

Portland, OR

January 2, 2018

Office of the Secretary of
State Audits Division
255 Capitol St. NE, Suite
#500 Salem, OR 97310

Plan of Action for School District No. 1J

School District No. 1J ("the District") respectfully submits the following corrective action plan in response to three material weaknesses reported in our audit of fiscal year ended June 30, 2017. The audit was completed by the independent auditing firm Talbot, Korvola & Warwick, LLP.

The material weaknesses are discussed below with the Action Plan listed for each.

- 1. Material Weakness:** The District should have in place a system of internal controls over financial reporting to ensure complete and accurate reporting of amounts reported in the financial statements. 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.

Recommendation: We recommend the District enhance its internal control review process over accounts payable to prevent miscoding of fiscal year accounting.

Action Taken: As recommended, the District has implemented additional and repetitive training for the Accounts Payable team. Over the past two months four sessions of training have been held. The District will continue to provide periodic training to ensure the staff has the knowledge and skills to perform this task. The District is also implementing multi-departmental strategies to ensure all expenses are recorded in the correct fiscal year.

- 2. Material Weakness:** The District should have in place a system of internal controls over financial reporting to ensure complete and accurate reporting of amounts reported in the financial statements. 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 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 \$18 million.

Recommendation: We recommend the District thoroughly review all work completed by outside contractors.

Action Taken: As recommended, the District will implement two levels of review for CAFR preparation; including all work completed by outside contractors.

3. **Material Weakness:** The District should have in place a system of internal controls over financial reporting to ensure complete and accurate reporting of amounts reported in the financial statements. 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.

Recommendation: We recommend the District enhance its internal control review process over year-end financial statement preparation.

Action Taken: As recommended, the District will implement two levels of review for CAFR preparation.

Sincerely,

Guadalupe Guerrero, Superintendent

Julia Brim-Edwards, Board Member – Zone 6, Board Chair

Julie Esparza Brown, EdD, Board Member – Zone 1, Co-vice Chair

Rita Moore, Board Member – Zone 4, Co-vice Chair

Paul Anthony, Board Member – Zone 2

Amy Kohnstamm, Board Member – Zone 3

Scott Bailey, Board Member – Zone 5

Mike Rosen, Board Member – Zone 7

January 2, 2018

RESOLUTION No. XXXX

Approval of Corrective Action Plan for Material Weaknesses Related to Financial Statement Findings

RECITALS

- A. Secretary of State requirements call for the Board to approve all recommendations to a Corrective Action Plan in response to three material weaknesses found during the year-end financial statement audit.
- B. The independent auditors found three identified material weaknesses related to financial statement findings including:
 - 1. 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; and
 - 2. The District enlisted an outside contractor to assist in calculating the GASB 68 pension journal entries and disclosures. This calculation incorrectly included \$18 million in pension contributions subsequent to measurement date that had not actually been made; and
 - 3. 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.
- C. The Corrective Action Plan includes the following steps:
 - 1. Related to the accounts payable recognition, the District has implemented additional and repetitive training for the Accounts Payable team in addition to continued periodic training to ensure the staff has the knowledge and skills to perform this task; and
 - 2. Related to the pension contribution calculation and incorrectly calculated year-end values the District will implement two levels of review for CAFR preparation, including all work completed by outside contractors.
 - 3. Related to all three material weaknesses, staff immediately modified the reports and included an additional level of review prior to the audit opinion being issued.
 - 4. A copy of this resolution will be filed with the Secretary of State.

RESOLUTION

The Board of Directors for Portland Public Schools, School District No. 1J, Multnomah County, Oregon, approves the Corrective Action Plan in response to the financial statement findings.