



Michelle Morrison
Chief Financial Officer

MEMORANDUM

DATE February 5, 2026, and February 10, 2026
TO Portland Public Schools Audit Committee and Board of Education
FROM Michelle Morrison, Chief Financial Officer
CC Dr. Kimberlee Armstrong
Rachel Hopper, Senior Director of Finance
Janise Hansen, Internal Performance Auditor
SUBJECT Audit Committee FY25 Financial Report Summary

Summary Overview

This concise review of the 2024-25 Annual Comprehensive Financial Report (ACFR) has been prepared in response to a request for a clear, high-level interpretation of the technical aspects of the report. This summary highlights specific items throughout the ACFR that may be of interest to various stakeholders, and provides staff-developed explanations for those items. This summary should not be relied upon in lieu of the data and narrative within the actual ACFR.

The Purpose of the Document

The financial report is developed by staff to the Government Finance Officers Association (GFOA) and Generally Accepted Accounting Procedures (GAAP) standards. The Governmental Accounting Standards Board (GASB) is the source of GAAP used by state and local governments in the United States. As with most of the entities involved in creating GAAP in the United States, it is a private, non-governmental organization. The District is required by law to produce an annual report and submit it to an independent auditor for review and certification prior to submission to the Board, Secretary of State, Oregon Department of Education, and other entities for disclosure.

Points of Interest

Correspondence (pp. 1-8) - The Transmittal Letter is from the District Financial Officer to viewers at large. The Independent Auditor's Report is correspondence regarding the work the auditor performs to test the District's internal controls and discusses the auditor's relationship to the District.

Certificate of Excellence (pp. 12) - The Certificate of Achievement for Excellence in Financial Reporting for the prior year and issued by the Government Finance Officers Association. This certificate represents the District met best practices in disclosure, content, and formatting for highest impact.

Management's Discussion and Analysis (MD&A) and Basic Financial Statements (pp.17-28) - This is a lengthy narrative that explains differences between the reported year and prior year's report. Many of the tables following the MD&A express the District's financial position in corporate (for profit) terms, which can be challenging to interpret.

Schedule of Revenue, Expenditures, and Changes in Fund Balance, General Fund (p. 37) - This table is commonly referenced for operational finance with budgetary context. A specific point of interest to both potential lenders (bond buyers) and bargaining units is the Fund Balance. Lenders track Fund Balance as an indicator of financial stability and management. Bargaining units tend to view an excessive fund balance as unequitable for their members.

Notes to Basic Financial Statements (pp.56-101) - This section provides detail for all of the Districts assets and liabilities and provides information regarding GAAP and the GASB standards and their application. Items include a description of the GASB reporting requirements and information about Other Post-Employment Benefits (OPEB), pension obligations, and debt.

Schedule of Revenues and Expenditures by Fund (pp. 98-105) - These tables are reconciled to data collected by the Oregon Department of Education, in accordance with the state account code structure prescribed by the Program and Budgeting Manual. The budget document is developed using the same account code structure at a higher level (for appropriations).

Statistical Section (pp. 107-132) - This section contains longitudinal data for the region and the District and provides stakeholders “trends” for demographics, tax collections, net position, fund balance, and economics.

Single Audit Section (pp. 135-147)- Participation in Federal Programs requires an added layer of reporting and disclosure. The auditors introduce their position related to testing requirements of federal Uniform Guidance and certify the revenue and expenditures of the District’s Federal Programs. Annually, they select specific programs for additional testing and report on findings. For FY25, the Title I Grants, Child Nutrition Cluster, and Education Stability Fund were selected for testing.

Compliance Section (pp. 148) - This is a closing note from the independent auditor with a summary of activities and compliance.

Findings and Corrective Action Plans

Staff Pre-Note on Findings: The 2024-25 Fiscal year was over 50% completed prior to the current Financial Leadership Team. Federal Program findings were procedural and control compliance, **not a loss or misuse of funds**. State Program findings were procedural and control compliance, **not a loss or misuse of funds**.

Per Uniform Guidance (which GFOA best practices align with and support), a Corrective Action Plan (CAP) is explicitly required for all current-year audit findings, including those related to the Schedule of Expenditures of Federal Awards (SEFA). Please see the audit findings and corresponding Corrective Action Plans below.

Federal Program Finding 2025-001



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Criteria: Under 2 CFR 200.510(b), the District is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements that includes the total federal awards expended as determined in accordance with 2 CFR 200.502. Additionally, the District has the responsibility for establishing and maintaining effective internal control over financial reporting and compliance.

Condition: A significant deficiency in internal controls over financial reporting was related to the District's preparation of the SEFA and the recording of grant- related balances. During our audit procedures, it was noted the SEFA misstated expenditures for various federal programs prior to being corrected. Additionally, the District had recorded unavailable revenue as federal grant revenue in the Capital Projects Fund and misclassified revenue between various federal and state grants in the Special Revenue Fund.

Cause: The cause appears to be related to staff turnover.

Effect or potential effect: The Schedule of Federal Awards misstated federal expenditures for various federal programs prior to being corrected. These adjustments impacted revenue in the Capital Projects Fund and the Special Revenue Fund. Additionally, there were misstatements of revenue related to state funds found during other audit procedures unrelated to the Schedule of Federal Awards.

Recommendation: Management should implement compensating controls over grant revenues, grant receivables, and unavailable grant revenue. Additionally, management should implement compensating controls over the preparation of the schedule of federal expenditures.

Views of responsible officials: The District understands and concurs with this finding.

Corrective Action Plan: The Chief Financial Officer will ensure that there is at least a two-tier transactional review by managers to ensure that grant revenues, receivables, and unavailable grant revenue are correctly documented, effective immediately.

Federal Program Finding 2025-002

Award Year: 2024-2025

Federal program: U.S. Department of Agriculture – 10.553, 10.555, 10.559, 10.582 Child Nutrition Cluster

Pass-through entity: Oregon Department of Education

Criteria: Per 2 CFR 200.303, a non-Federal entity must “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the

Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Condition: The District could not provide documentation of review and approval of the indirect costs charged to the federal program. The deficiency in controls over compliance related to indirect costs is considered a significant deficiency.

Cause: The cause appears to be related to staff turnover.

Effect or potential effect: There is potential for indirect costs in excess of the allowed indirect cost rate to be charged to the federal program.

Questioned Costs: No questioned costs identified.

Context: The District appears to have not retained documentation of review and approval of the indirect costs charged to the federal program.

Recommendation: The District should ensure controls related to compliance with indirect cost requirements are implemented.

Corrective Action Plan: The Chief Financial Officer will ensure staff retain documentation of review and approval of the indirect costs charged to the federal programs, effective immediately.

Federal Program Finding 2025-003

Award Year: 2024-2025

Federal program: U.S. Department of Education – 84.010 Title I Grants to Local Educational Agencies (Title 1, Part A of the ESEA)

Pass-through entity: Oregon Department of Education

Criteria: Per 2 CFR 200.303, a non-Federal entity must “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Condition: The District could not provide documentation of review and approval of the indirect costs charged to the federal program. The deficiency in controls over compliance related to indirect costs is considered a significant deficiency.

Cause: The cause appears to be related to staff turnover.

Effect or potential effect: There is potential for indirect costs excess of the allowed indirect cost rate to be charged to the federal program.



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Questioned Costs: No questioned costs identified.

Context: The District appears to have not retained documentation of review and approval of the indirect costs charged to the federal program.

Recommendation: The District should ensure controls related to compliance with indirect cost requirements are implemented.

Corrective Action Plan: The Chief Financial Officer will ensure staff retain documentation of review and approval of the indirect costs charged to the federal programs, effective immediately.

Federal Program Finding 2025-004

Award Year: 2024-2025

Federal program: U.S. Department of Education – 84.010 Title I Grants to Local Educational Agencies (Title 1, Part A of the ESEA)

Pass-through entity: Oregon Department of Education

Criteria: Per 2 CFR 200.303, a non-Federal entity must “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Condition: The District could not provide documentation of time and effort certifications or an acceptable alternative for payroll charged to the federal program. The deficiency in controls over compliance related to reporting is considered a significant deficiency.

Cause: The cause appears to be related to staff turnover.

Effect or potential effect: Without adequate controls over allowable costs related to payroll, the District could charge unallowable costs to the grant.

Questioned Costs: No questioned costs identified.

Context: Out of a population of 5,107 payroll transactions, excluding related benefits, totaling \$6,240,176, a sample of 40 transactions, totaling \$42,514, was selected. Of the sample selected, the District could not provide documentation of time and effort certifications or an acceptable alternative for 10 transactions, totaling \$22,591.

Recommendation: The District should ensure controls related to compliance with allowable costs requirements related to payroll are implemented.

Corrective Action Plan: The Chief Financial Officer will ensure notification to federally funded employees of their funding source twice a year and will make sure supervisors get reports and sign certifications for work duties in compliance with the federal grants twice a year.

Federal Program Finding 2025-005

Award Year: 2024-2025

Federal program: U.S. Department of Education – 84.425 Education Stabilization Fund

Pass-through entity: Oregon Department of Education

Criteria: Per 2 CFR 200.303, a non-Federal entity must “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Condition: The District could not provide documentation of review and approval of the indirect costs charged to the federal program. Additionally, indirect costs in excess of the allowed indirect cost rate of 4.51% were charged to the federal program prior to being corrected. The deficiency in controls over compliance related to indirect costs is considered a significant deficiency.

Cause: The cause appears to be related to staff turnover and errors in the calculation to determine indirect costs originally charged to the federal program.

Effect or potential effect: Audit procedures identified indirect costs of \$1,603 in excess of the allowed indirect cost rate charged to the federal program prior to being corrected.

Questioned Costs: As the error was corrected, no questioned costs were identified.

Context: Indirect costs for the fiscal year were recalculated based on total expenditures charged to the grant.

Recommendation: The District should ensure controls related to compliance with indirect cost requirements are implemented.

Corrective Action Plan: The Chief Financial Officer will ensure staff retain documentation of review and approval of the indirect costs charged to the federal programs, effective immediately.

Federal Program Finding 2025-006

Award Year: 2024-2025

Federal program: U.S. Department of Education – 84.425 Education Stabilization Fund.



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Pass-through entity: Oregon Department of Education

Criteria: Per 2 CFR 200.303, a non-Federal entity must “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Condition: The District could not provide documentation of review and approval of the ESSER Annual Performance Report submitted to the Oregon Department of Education. The deficiency in controls over compliance related to reporting is considered a significant deficiency.

Cause: The cause appears to be related to staff turnover.

Effect or potential effect: Without adequate controls over reporting, the District could submit reports with errors or fail to comply with the reporting requirements of federal programs.

Questioned Costs: No questioned costs identified.

Context: For the one report the District was required to submit to the Oregon Department of Education, the District could not provide documentation of the review and approval of the report prior to being submitted.

Recommendation: The District should ensure controls related to compliance with reporting requirements are implemented.

Corrective Action Plan: The Chief Financial Officer will ensure staff retain documentation of the review and approval of grant reports prior to being submitted, effective immediately.

State Program Compliance Findings and Corrective Action Plans

In connection with auditor testing, no evidence was found that the District was not insubstantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, except for:

State Finding 2025-007

Oregon Local Budget Law requires that differences in expenditures in excess of 10% are approved through a Supplemental Budget process. The Appropriations Changes made in June did not satisfy Local Budget Law and the Supplemental Budget process was not completed. The auditors have reported a

Finding of “Significant Deficiency in Internal Controls over Compliance with State Laws” as expenditures exceeded appropriation levels by major fund and function by more than 10%.

Context: The District had expenditures on a budgetary basis which exceeded appropriations by \$4,147 thousand for General Fund – Instruction and by \$3,584 thousand for Special Revenue Fund – Support Services.

Corrective Action Plan: District staff use multiple analytics softwares to monitor and project end-of-year expenditures by fund, function, and object. Monitored budget appropriations against actual expenditures. Appropriations adjusted to include any targeted carryover identified in the prior year annual financial report. The Chief Financial Officer will ensure monitoring measures for appropriations are in place in compliance with Local Budget Law, effective immediately.

State Finding 2025-008

Oregon Local Budget Law requires a series of publications to adopt a supplemental budget rather than budget transfers.

Context: The District utilized the process for budget transfers rather than a supplemental budget for a reduction in appropriations without the required publications.

Corrective Action Plan: The Chief Financial Officer will ensure monitoring measures for appropriations and any required modifications to the adopted budget are in place and in compliance with Local Budget Law including publications, effective immediately.

State Finding 2025-009

The Oregon State School Fund (SSF) includes a "[Teacher Experience Factor](#)" in its equalization formula to adjust for higher salary costs in districts with more experienced educators. It calculates the difference between a district's average teacher experience and the statewide average, adding or subtracting \$25 per weighted student for each year of difference.

Context: Out of a sample of 60 teachers selected, there were variances between the District's records and the years of experience reported to the Oregon Department of Education for four teachers.

Corrective Action Plan: The Chief Financial Officer will collaborate with the Chief Human Resources Officer to audit teacher experience to ensure accuracy in reporting to the Oregon Department of education, effective immediately.

References

[Oregon Department of Education Program and Budgeting Manual](#) [Uniform Guidance](#)
[Government Finance Officers Association](#) [Governmental Accounting Standards Board](#)
[Oregon Secretary of State - Audits Division](#)