

Board Agenda Item #	II E – Information Item
Date:	12-15-19
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Nanie Montijo, Chief Finance Officer and Karl Yoder, DMS
RE:	MSA – Santa Ana 2018-19 Audit Finding

Proposed Board Recommendation

No action required – information item only.

Background

Depreciation is a method of allocating the cost of facilities and other capital assets over the useful life of the asset. While it is not a cash expense that is paid out to a third party, it is a required component of the organization’s financial statements and must be calculated on at least an annual basis and shown as an expenditure on the School’s Statement of Activities (aka income statement). For the 2018-19 year, the amount of depreciation expense for MSA-Santa Ana was understated by \$362k in the Unaudited Actuals report prepared by DMS (actual depreciation was \$561k). This error was identified by DMS during the audit process and brought to the auditor’s attention on October 16, 2019. Due to the amount of this variance between the Unaudited Actuals and the final audited totals, this became an audit finding.

To strengthen and improve this and related financial controls, a Corrective Action Plan is proposed, containing the following new/additional controls to prevent recurrence of this or related deficiencies.

Corrective Action Plan key steps:

1. Implement monthly calculation and posting of depreciation expense for all MERF entities.
2. Implement new all-hands fixed asset register review session prior to July Budget, 1st and 2nd Interim, and Unaudited Actuals, attended by MPS Finance and DMS Finance staff members, to explicitly review, discuss and sign off on current fixed asset register line item components (including depreciation for each asset) as part of overall budget/actuals review process
3. Increase frequency of all-hands meetings to semi-monthly, and include specific discussion of fixed assets, intra-organizational loans, bond issues, facilities projects, and accrual balances to ensure ongoing compliance.

Budget Implications

No budget impact. Depreciation expense in 2019-20 as shown in First Interim Budget is correct.

How Does This Action Relate/Affect/Benefit All MSAs?

Improved internal controls benefit entire MERF organization going forward.

Name of Staff Originator: Nanie Montijo, CFO and Karl Yoder, DMS