



Board Agenda Item #	III A: Action Item
Date:	April 29, 2021
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Serdar Orazov, Chief Financial Officer
RE:	Approval of action plan to address the significant deficiency noted in FY19/20 audit reports

### Proposed Board Motion

Motion to approve the action plan to address the significant deficiency noted in FY19/20 audit reports.

### Background

As part of the annual audit process, the auditors are reconciling the financials to the Unaudited Actuals reports. Any changes to the financials after Unaudited Actuals (submitted to LACOE and LAUSD early August of each year) are submitted to the authorizers are categorized as “Adjusting Entry”. During the audit process for fiscal year 19/20 we had a number of adjusting entries to address additional accruals, PY Account Payable adjustments and to reconcile the Intra-Organizational loans that were not captured in the Unaudited Actuals. As such, those entries were treated as adjusting entries. Since the amount of those entries were above the materiality limit, the auditor noted significant deficiency over internal controls in the audit reports. This doesn’t change the auditor’s opinion on our financial statements which is “Unmodified”, the highest standard and we have a clean audit report. However, we do take the noted deficiencies seriously and put together an action to address and avoid the timing issues going forward. Below is the action plan that was prepared in coordination with Delta Management Services (DMS), our back office provider.

There are current processes in place that are structured to provide segmentation of duties (the completion of reconciliations and subsequent review of the reconciliations and draft financial reports). Moving forward these processes will be strictly adhered to in order to provide a thorough review of the balance sheet accounts and the draft financials; each month a reconciliation of Accounts Receivable, Accrued Accounts Payable, Prepaid expenditures, and payroll liabilities are completed by DMS staff. Reconciling items and other items that are not clearing thru normal accounting processes are highlighted for guidance/action. These reconciliations will be forwarded to Magnolia finance team for review. This process ensures all accruals are correct and cleared

timely during the fiscal year. In addition, at the year end, schedules will be created to derive AR and AP accruals required for closing the fiscal year. We believe these measures will enhance and improve our existing processes and allow us to expedite the year-end close. Which will enable us to make sure there are minimal adjustments to the financials after Unaudited Actuals are submitted.

Budget Implications

None

Exhibits (attachments)

None