



MAGNOLIA PUBLIC SCHOOLS

Text

Board Of Directors

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| Board Agenda Item # | V. C |
| Date: | 02.11.2016 |
| To: | Magnolia Board of Directors |
| From: | Caprice Young, Ed.D., CEO & Superintendent |
| Staff Lead: | Oswaldo Diaz, Chief Financial Officer |
| RE: | Update on Back Office Provider Services |

Proposed Board Recommendation

Written report. No action required.

Background

As a condition of charter renewal of MSA-SD, San Diego Unified School District (SDUSD) stipulated that Magnolia outsource its back office services to a third party service provider. Los Angeles Unified School District also strongly advised outsourcing the services, although it was not formally required from Magnolia.

Based on the required renewal condition from SDUSD, financial challenges, and audits surrounding Magnolia Public Schools, the organization entered into an agreement with EdTec to outsource the back office functions. The purpose of the agreement was to support the accounting and compliance functions of all MPS schools and home office.

Based on the original Request for Proposal (RFP) published by MPS, the organization separated the services to be provided by MPS' staff and the back office service provider:

| Externally Provided Services | Internally Managed Services |
|---|--|
| <ul style="list-style-type: none"> ▪ Accounts payable & receivable ▪ Payroll and accompanying report ▪ Cash flow management ▪ Budget preparation ▪ Financial reports preparation (Board & Mgmt.) ▪ Regulatory reporting & compliance (including Title I) ▪ California Public Attendance Data; Student data; testing; etc. ▪ Local Control Funding Formula/Local Control | <ul style="list-style-type: none"> ▪ Debt and Facilities management ▪ Strategic planning ▪ MSA-wide financial & budget training ▪ Data strategy development: strategic alignment & project prioritization ▪ Risk Supporting leadership team on financial aspects of programmatic issues management; insurance ▪ Staffing of Board Finance Committee ▪ All reporting with regard to financial Integrity ▪ Internal Controls/Processes |



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Accountability Plan

- Accounting Technology
 - Personnel Administration
 - Exemplary leadership in school finance
 - Testifying as to MPS' financial integrity
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On April 23, 2015, MPS and EdTec entered into a back office service agreement that included the following scope of services detailed in the EdTec Statement of Work:

1. Finance and Accounting
 - a. Budgeting
 - b. Financial Statements
 - c. Accounting
 - d. Accounts Payable and Accounts Receivable
 - e. Government and Financial Reporting
 - f. Audit Support
2. Payroll
 - a. Payroll Processing
 - b. Payroll Reporting
 - c. Payroll Record Maintenance
 - d. W-2 Processing
 - e. IRS, SDI, WC Support
 - f. STRS/PERS
3. Business Consulting
 - a. Negotiations
 - b. Strategic Budget Development
 - c. Financing Support
 - d. Legal Services Optimization
 - e. Special Projects
4. Board Meeting Support
 - a. Board Meeting Attendance
5. Compliance and Accountability
 - a. Funding Compliance
 - b. District and State Regulation Compliance
6. Attendance and Data Reporting
 - a. Local Attendance Reporting
 - b. State Attendance Reporting
 - c. Non-Attendance Reporting
 - d. Attendance Procedures Assistance
 - e. Quarterly ADA Analysis



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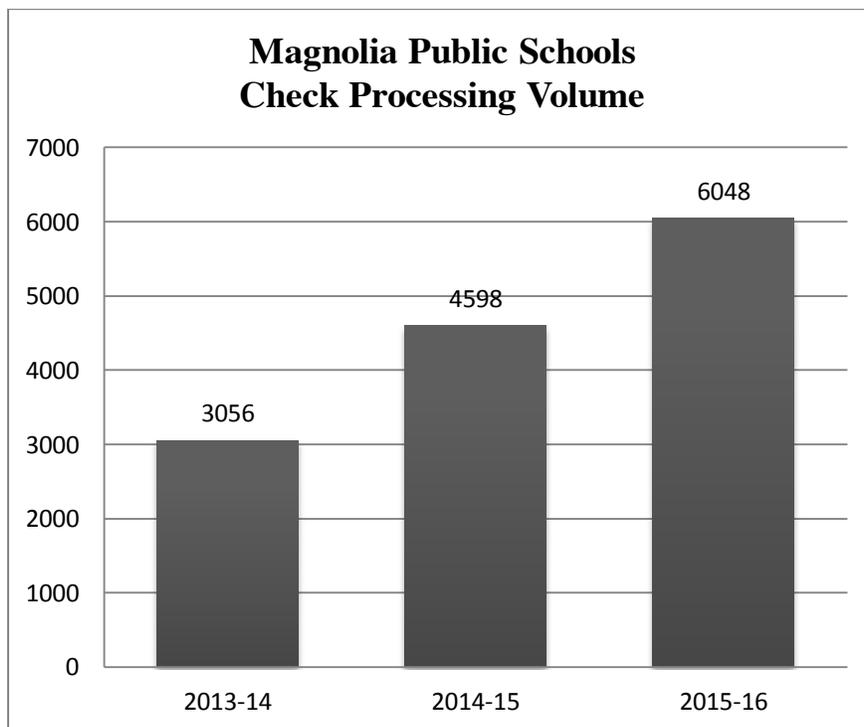
7. Charter Development and Grants Administration

- a. Financial Reports
- b. Fund Accounting
- c. Public Charter School Grant Program (PCSGP) grant reporting
- d. Consolidated Application (ConApp, now call CARS)
- e. State Revolving Loan
- f. After School Education and Safety Program (ASES)
- g. School Based Medi-Cal Administrative Activities (SMAA)
- h. Charter School Facilities Incentive Grant (CSFIG)
- i. Deferral Exemption Application

System Implementation and Transition of Job Duties

During the past eight (8) months, MPS' staff has worked with EdTec to transition the job functions in accordance with the service agreement, as well as establish and implement new internal controls and procedures for the organization.

Part of the challenges includes the increase quantity of checks issued by the organization, and the additional steps required compared from the previous years. In the last couple of years, MPS has consistently increased the volume of check processed and has increased transaction processing by 97.91%, from 3,056 transactions during fiscal year 2013-14 to 6,048 projected transactions for FY 2015-16.



FY 2015-16 check volume is estimated based on current payment trend.



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Due to the comments and observations provided by the State Auditors and our authorizing agencies, we have been implementing tighter controls and procedures that allow increase levels of oversight and financial integrity. In addition to the step-up in internal controls and increased Accounts Payable processing volume, we have been providing additional documentation required to suffice current and future audit requirements.

As part of the transition process, MPS' financials have been transferred to NetSuite, a mid-size financial system that is more robust in comparison to QuickBooks. NetSuite allows a chart of accounts that is in accordance with the California Department of Education Standardized Account Code Structure (SACS), and that provides additional assurances of data integrity and audit trail of all transactions.

During the first half of the year EdTec provided payroll processing and reporting services. As of January 1, 2016, MPS has implemented a new payroll system in order to address various compliance issues relating to proper time keeping and reporting, as well as employee data integrity. MPS' staff worked with EdTec during the transition period, and is currently providing all required reports to ensure that the information is properly presented in the financial statements.

During the next couple of months, MPS's staff will be working with EdTec to systemize and implement a purchasing system and process that will allow the organization to ensure that all purchases made have been received by the intended users, and approvals are in accordance with our accounting policies and procedures. Currently, manual steps are followed in order to ensure that the process has been completed and paid, and a systemized process needs to be implemented.

Based on conversations with MPS' external auditors and authorizers, we are working with EdTec to locate a best in class fixed assets inventory system. We are currently in the process of identifying a system that will allow our schools to keep a tight control in equipment and assets, and that will provide the necessary reports for audit and review purposes. As of today, the organization has been keeping manual logs that are prone to human error, and that are not consistent among all schools.

Conclusion

As we get close to the one-year mark, we have been working with EdTec to ensure that the processes in place are adequate for our current organization size and future growth. MPS has been taking the system changes as an opportunity to replace legacy processes, technologies and old methodologies that have been long outgrown by the organization.

Budget Implications:

None.

Name of Staff Originator:

Oswaldo Diaz
Chief Financial Officer