



# MAGNOLIA PUBLIC SCHOOLS

## Board Of Directors

Board Agenda Item #	IV. C
Date:	03.12.2016
To:	MPS Board of Directors
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Financial Update on State Audit Recommendations

Proposed Board Recommendation

Discussion item. No action required.

Background

The California State Auditor conducts performance audits that are either mandated by statute or requested by the Legislature. As requested by the Joint Legislative Audit Committee, the California State Auditor conducted an audit of Magnolia Public Schools (MPS) for Fiscal Years 2011-12, FY 2012-13, and FY 2013-14, and provided twelve (12) recommendations based on their findings as follows:

<b>Recommendation</b>	
1	Consistent with their charter petition terms, the Foundation should ensure that each academy maintains the minimum required cash reserve.
2	To ensure the CMO fees it charges to its academies are accurate, the Foundation should develop procedures to ensure that CMO fees are accurately calculated and recorded, including performing regular reconciliations of the CMO fees recorded in the Foundation's and academies' general ledgers.
3	To ensure that the academies' spending aligns with their budgets, the Foundation should create and retain standardized reports with a sufficient level of detail to allow its staff and the academy principals to compare the academies' spending to their budgets.
4	To reduce the risk of misappropriation, the Foundation should ensure that it appropriately authorizes all of its expenditures and the academies' expenditures. It should also ensure that it includes sufficient supporting documentation for each expense, including documenting the purpose of each transaction.
5	To strengthen its controls over purchases that principals make at the academies, the Foundation should update its accounting manual to require academy principals to obtain written authorization before processing purchases on their debit cards that are higher than established thresholds. The Foundation should also revise its accounting manual to prohibit the use of debit cards for travel except in the case of a documented emergency.
6	To ensure that it can locate documentation supporting its expenditures and the academies' expenditures, the Foundation should develop a stronger document filing system that links all supporting documentation for expenditures to its authorization and justification included in the CoolSIS system by using a unique identifier such as a purchase order number.
7	To strengthen its contracting process, the Foundation should define who has authority to sign vendor agreements.



# MAGNOLIA PUBLIC SCHOOLS

13950 Milton Ave. 200B Westminster, CA 92683

P: (714) 892-5066 F: (714) 362-9588

8	To increase transparency and reduce the risk of misuse of funds, the Foundation should update its policies and procedures regarding vendor selection to require that it maintain independence in its relationships with vendors.
9	To ensure that it provides proper oversight over its process for hiring employees who are not citizens of the United States and that it meets all legal requirements for the employees it sponsors, the Foundation should enhance its human resources policies and procedures and implement a centralized system to track and maintain sponsored employees' files and publicly available documentation. Moreover, the Foundation should use the centralized system to ensure that proper notification is sent to Homeland Security for any material changes to sponsored employees' employment. The Foundation should also review all of its past and present noncitizen employees' files and notify Homeland Security of any material changes that it has not previously reported.
10	To hold its management accountable for meeting their responsibilities related to the payroll process, the Foundation should continue to implement its new desk procedures of requiring review and documentation of that review at each stage in the payroll process.
11	To safeguard the funds that the academies raise, the Foundation should ensure that academy staff follow the fundraising procedures in its accounting manual, especially with regards to timeliness of bank deposits and sign-offs on cash-count forms. The Foundation should also annually train its staff to ensure compliance with fundraising procedures.
12	To ensure their compliance with state and federal laws, the Foundation should continue to develop procedures for the academies to follow when they report truancy data to Education. The Foundation's procedures should include a process for the academies to document their calculations.

Based on the State Audit recommendations, MPS is required to submit a response regarding the progress in implementing the recommendations during the one year release period ending May 7, 2016

As of January 1, 2016, MPS had fully implemented seven (7) out of twelve recommendations, and is the process of implementing the remaining recommendations prior to the May 7, 2016 deadline.

Budget Implications:

None.

Name of Staff Originator:

Oswaldo Diaz  
Chief Financial Officer

**Magnolia Public Schools  
California State Auditor's Recommendations  
Report 2014-135R**

Recommendation	Magnolia Response	Status	Expected Implementation Date
<p>1 Consistent with their charter petition terms, the Foundation should ensure that each academy maintains the minimum required cash reserve.</p>	<p>The organization has implemented a monitoring system to keep track of the minimum required cash reserves for all of the schools. The organization monitors bank balances on a daily and monthly basis to ensure that cash balances are adequate, and to ensure compliance with minimum reserves in accordance with the charter requirements.</p>	Fully Implemented	Fully Implemented
<p>2 To ensure the CMO fees it charges to its academies are accurate, the Foundation should develop procedures to ensure that CMO fees are accurately calculated and recorded, including performing regular reconciliations of the CMO fees recorded in the Foundation's and academies' general ledgers.</p>	<p>The organization has implemented a cost allocation methodology that has been reviewed by external consultants and approved by Magnolia's Board of Directors. Cost allocation is reconciled on a monthly basis.</p>	Fully Implemented	Fully Implemented
<p>3 To ensure that the academies' spending aligns with their budgets, the Foundation should create and retain standardized reports with a sufficient level of detail to allow its staff and the academy principals to compare the academies' spending to their budgets.</p>	<p>The organization has contracted a back office service that provides MPS with monthly financial statements and reports. The financial reports allow the school principals and senior management to review monthly income statements, actual vs budget, cash flow reports, among others.</p>	Fully Implemented	Fully Implemented
<p>4 To reduce the risk of misappropriation, the Foundation should ensure that it appropriately authorizes all of its expenditures and the academies' expenditures. It should also ensure that it includes sufficient supporting documentation for each expense, including documenting the purpose of each transaction.</p>	<p>The organization has reviewed and implemented new policies and procedures in order to enhance the internal control process and to ensure that all supporting documentation and approvals are included. The organization works with the back office service provider to ensure that all required controls are followed during all purchase transactions.</p>	Fully Implemented	Fully Implemented
<p>5 To strengthen its controls over purchases that principals make at the academies, the Foundation should update its accounting manual to require academy principals to obtain written authorization before processing purchases on their debit cards that are higher than established thresholds. The Foundation should also revise its accounting manual to prohibit the use of debit cards for travel except in the case of a documented emergency.</p>	<p>As of June 30, 2015, the organization has discontinued the use of school site debit cards and has assigned credit cards to school principals and key employees in accordance with the policies and procedure manual. The new credit cards are the responsibility of the cardholders, and the expenditures are reimbursed in accordance with the policies and procedures manual. The new policy "CSH111 COMPANY-ISSUED CREDIT CARDS" has been Board approved and is currently in effect for the organization.</p>	Fully Implemented	Fully Implemented

**Magnolia Public Schools  
California State Auditor's Recommendations  
Report 2014-135R**

Recommendation	Magnolia Response	Status	Expected Implementation Date
<p>6 To ensure that it can locate documentation supporting its expenditures and the academies' expenditures, the Foundation should develop a stronger document filing system that links all supporting documentation for expenditures to its authorization and justification included in the CoolSIS system by using a unique identifier such as a purchase order number.</p>	<p>The organization is in the process of implementing a document filing system that will link all supporting documentation for expenditures to its authorization and justification. In order to implement the new system, the organization is working with the back office service provider to ensure that a unique identifier is provided and that it can be tracked in the financial system.</p>	<p>Pending</p>	<p>April 30, 2016</p>
<p>7 To strengthen its contracting process, the Foundation should define who has authority to sign vendor agreements.</p>	<p>The organization has made various changes to the policies and procedures in order to provide additional clarity to the approval process and limits. The organization is in a continuous process of reviewing the current policies and procedures manual and will be making additional changes to strengthen the vendor agreement approval process.</p>	<p>Pending</p>	<p>March 30, 2016</p>
<p>8 To increase transparency and reduce the risk of misuse of funds, the Foundation should update its policies and procedures regarding vendor selection to require that it maintain independence in its relationships with vendors.</p>	<p>The organization has established revisions to the policies and procedures in order to enhance vendor selection, and is currently in the process of reviewing the current process in order to ensure that the organization maintain independence in its relationship with vendors.</p>	<p>Pending</p>	<p>March 30, 2016</p>
<p>9 To ensure that it provides proper oversight over its process for hiring employees who are not citizens of the United States and that it meets all legal requirements for the employees it sponsors, the Foundation should enhance its human resources policies and procedures and implement a centralized system to track and maintain sponsored employees' files and publicly available documentation. Moreover, the Foundation should use the centralized system to ensure that proper notification is sent to Homeland Security for any material changes to sponsored employees' employment. The Foundation should also review all of its past and present noncitizen employees' files and notify Homeland Security of any material changes that it has not previously reported.</p>	<p>The organization has conducted an internal audit of all sponsored employees and is in the process of implementing a centralized system to ensure that proper notifications are sent in accordance with Federal and State guidelines. Policies and procedures have been updated to include additional controls. A new HR system has been implemented as of January 1, 2016 and includes employee oversight. The full process is currently under review and will be completed in the first quarter of 2016.</p>	<p>Pending</p>	<p>April 30, 2016</p>

**Magnolia Public Schools  
California State Auditor's Recommendations  
Report 2014-135R**

Recommendation	Magnolia Response	Status	Expected Implementation Date
<p>10 To hold its management accountable for meeting their responsibilities related to the payroll process, the Foundation should continue to implement its new desk procedures of requiring review and documentation of that review at each stage in the payroll process.</p>	<p>The organization has implemented the payroll desk procedure, and works with the back office service provider to ensure that all steps are followed on a bimonthly basis.</p>	<p>Fully Implemented</p>	<p>Fully Implemented</p>
<p>11 To safeguard the funds that the academies raise, the Foundation should ensure that academy staff follow the fundraising procedures in its accounting manual, especially with regards to timeliness of bank deposits and sign-offs on cash-count forms. The Foundation should also annually train its staff to ensure compliance with fundraising procedures.</p>	<p>As of June 30, 2015, the organization has trained all school principals in regards to current fundraising procedures. This training will be conducted on an annual basis, and includes the review oversight of the finance department. The most recent training was conducted on February 22, 2016.</p>	<p>Fully Implemented</p>	<p>Fully Implemented</p>
<p>12 To ensure their compliance with state and federal laws, the Foundation should continue to develop procedures for the academies to follow when they report truancy data to Education. The Foundation's procedures should include a process for the academies to document their calculations.</p>	<p>The organization has implemented a new process that allows accurate reporting of truancy data, and is in the process of documenting the policies and procedures to include the process.</p>	<p>Pending</p>	<p>March 30, 2016</p>