

Board Agenda Item #	Agenda # III B
Date:	March 9, 2017
To:	Magnolia Board of Directors
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Nanie Montijo, Chief Financial Officer
RE:	Revised Fiscal Policies to Align with LACOE MOU Requirement

Proposed Board Recommendation

I move that the board approve the following revised fiscal policies for Magnolia Public School.

Background

As one of LACOE’s conditions of authorization, the following fiscal policies are revised to align with the MOU and to address the deficiencies identified by the authorizing agency in Finding 3 in the LACOE Report of Findings of Fact to the County Board dated December 20, 2016:

- Update Bank Reconciliation Policy to include actual procedures with clear timelines and person responsible
- Clearly describe the Fixed Assets Monitoring System and verify that all applicable assets are included in the fixed assets schedule
- Include a Payroll Desk Policy with procedures aligned to the recommendations of the California State Auditor
- Provide a Clear Conflict of Interest Policy that is consistent with the requirements provided with Section 1.3D of the MOU and BP 0420.4

Budget Implications

- N/A

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

- To satisfy one of the conditions of authorization required by LACOE, the authorizing

Name of Staff Originator: Nanie Montijo, CFO and Kristin Dietz, Edtec

Attachments

1. CSH107 Revision 1 BANK ACCOUNT RECONCILIATION
2. INV101 Revision 1 FIXED ASSET CONTROL AND LEASES
3. PYR101 Initial PAYROLL DESK POLICY

**SOP # CSH107 Revision: 1**  
**Effective Date: 3/09/17**

**Prepared by: Central Office**  
**Approved by: BOD**

**Title: CSH107 BANK ACCOUNT RECONCILIATIONS**

**Policy:** To ensure the accuracy of the Organization's bank account records by proving the monthly balance shown in the bank's Account Register.

**Purpose:** To outline the practices for preparation of a Monthly Bank Reconciliation

**Scope:** This applies to all bank accounts maintained by the Organization.

**Responsibilities:**

Chief Financial Officer or designee is responsible for review and approval of all reconciliations.

Back-office service provider is responsible for reconciling each site's respective checking account.

**Background:** Errors or omissions can be made to the Organization's bank account records due to the many cash transactions that occur. Therefore, it is necessary to prove the monthly balance shown in the bank account register. Cash on deposit with a bank is not available for count and is therefore proved through the preparation of a reconciliation of the Organization's record of cash in the bank and the bank's record of the Organization's cash that is on deposit.

**Procedure:**

**1.1 BANK STATEMENT PREPARATION**

**1.2** After receipt of the monthly bank statement and/or online printing of the monthly bank statement, Back-office accountant should prepare the monthly bank reconciliation by the 20<sup>th</sup> of the following month. After preparation the bank reconciliation will be carefully reviewed by the Back-Office client manager. Once reviewed, the bank reconciliations are sent to the Finance Team for final review and approval. To preserve proper segregation of duties, no single employee, should perform both cash transaction functions and bank account reconciliations.

**2.1 COMPUTERIZED FORMAT**

**2.2** In the computerized environment, the accounting system provides an automated bank reconciliation task. This task is generally selected once a month in conjunction with receiving the month end bank statement and/or online printout of the month end bank statement. Once selected, the screen shows a list of all items that have been posted to the cash account and that have not been cleared from the previous month's account reconciliation. The screen is usually divided into two segments: one half is a list of all checks and other charges reducing cash, and the other half is a list of all deposits and other items increasing cash. This screen would also have a field for entering the proper month end date and the balance at month end, per the bank.

**2.3** After the account-reconciling task is successfully completed, a report is provided which shows the reconciliation process, including outstanding checks and deposits in transit.

Note: Once completed, the bank reconciliations and bank statements are filed electronically.

**Revision History:**

<b>Revision</b>	<b>Date</b>	<b>Description of changes</b>	<b>Requested By</b>
0	2/14/13	Initial Release	
1	3/09/17	Update Procedures and include back-office service provider processes	Nanie Montijo, CFO

**Title: INV101 FIXED ASSET CONTROL AND LEASES**

**Policy:** Proper control procedures will be followed for all capital asset acquisitions, transfers and dispositions in order to provide internal control of capital equipment and to assist in reporting.

**Purpose:** To outline the procedures for acquiring, disposing and maintaining control of capital assets. This is particularly important for assets purchased with grant program dollars where the grantee may want the equipment returned at the end of the program.

**Scope:** This procedure applies to all equipment with a value of \$500 or more and furniture a value of \$5,000 or more.

**Responsibilities:**

School Principals are ultimately responsible and accountable for furniture, equipment, machinery and any other assets in their schools. An automated fixed asset tracking system will be implemented for tracking and tagging assets to be inventoried.

**Definitions:**

Capitalized Equipment: All furniture and equipment costing \$5,000 or more each should be recorded in the fixed assets inventory system and depreciated annually.

Non-Capitalized Equipment: No equipment costing less than \$5,000 each should be depreciated. However, non-capitalized equipment costing \$500 or more that is motorized, electronic, or computerized should be added to the fixed assets inventory system for fiduciary purposes only so that its existence can be verified during the annual physical inventory process.

Furniture: No furniture items costing less than \$5,000 each should be added to the fixed assets inventory system or depreciated

**Procedure:**

**1.0 ACQUISITIONS**

**1.1** All purchases of furniture and equipment as defined above must be tagged and included in the inventory listing.

See PUR102 for the procurement process to be followed.

**1.2** Any internally constructed or donated equipment will be reported to Finance Team if the item cost has a value of \$5,000 or more. A complete description of the property, date manufactured or received, number of items, cost or estimated value and a statement that it was internally constructed or donated will be included in the report.

**1.3** To maintain proper segregation and control upon termination of any employees, any employee owned tools, equipment or furniture brought on the Organization premises will be reported to the School Principal. The report should include the employee's name, description of items, identification numbers, if any, and reason for using the asset.

## **2.0 DISPOSITIONS**

**2.1** Assets may be sold or traded-in on new equipment. An example INV103 Ex1 ASSET DISPOSITION form or updating of Excel workbooks is to be completed and approved by the School Principal. Any assets with an original value greater than \$5,000 will also require the Chief Financial Officer's approval.

Upon approval, the school may advertise the property for sale or submit a list to purchasing for sale and disposition. After completion of the sale, an example INV103 Ex2 BILL OF SALE provided below will be issued and the ASSET DISPOSITION form will be submitted to Finance Team who will ensure deletion of the item from the asset records and submit paperwork to back-office provider to record any gain or loss on the disposition.

**2.2** Worn-out or obsolete property with no cash value will be reported to Finance Team on the Asset Disposition form with the description, serial number and condition. Finance Team will inspect all worn-out or obsolete property before it is removed from the school and discarded. The asset will then be removed from the asset records.

**2.3** Any asset that is missing or has been stolen will be reported in writing to the School Principal and Finance Team as soon as possible. The description, serial number, and other information about the lost item should be included in the report.

Accounting will determine the proper course of action and will notify the company's insurance carrier and any outside authorities if deemed appropriate. If un-recovered, the asset will then be removed from the asset records.

- 2.4** Inter-school transfers of assets will be reported to Accounting in writing including the description, serial number and the name of the school to receive the property.

The School Principal to whom the item was assigned originally will be held accountable until accounting is notified of the transfer. After being notified, the School Principal acquiring the property assumes responsibility. Accounting will then record the inter- school transfer on the asset records.

### **3.0 ASSET RECORDS**

- 3.1** Upon any asset acquisition, Accounting is responsible for assigning and attaching asset number tags to the property where it can be readily located.

Accounting will then maintain a detailed listing of each fixed asset item which will include the description, date acquired, vendor, cost basis, assigned school and location. On an annual basis, accounting will furnish each school a report showing a listing of assets assigned to that school and any acquisitions, disposals and transfers during the past year. Any discrepancies must be communicated to Finance Team by June 30<sup>th</sup> of each year. This report should be filed by the School Principal for reference and later use.

- 3.2** A physical count will be taken at each site every two years or as needed.
- 3.3** Each school will be responsible for locating assets with its number tag attached that are recorded as assigned to their school whenever requested by Accounting, a county property tax auditor or the company's external auditors.
- 3.4** Whenever a change in School Principal occurs, all items should be accounted for by the outgoing School Principal. The incoming School Principal will accept the responsibility and accountability for the school asset listing upon assuming the position. Accounting can assist with this audit if requested.



**4.1 LEASED OR OWNED VEHICLES**

- 4.2** The safety and comfort of MERF employees, parents and Board members is of utmost importance. Therefore, MERF has established a policy whereby vehicles, whether leased or purchased, will be retained for a maximum of 100,000 miles or 8 years, whichever is less. The Finance Team will establish a mileage log to ensure vehicles are properly planned and replaced on schedule. Any individual that is assigned a vehicle shall be responsible for maintaining the mileage log and working with the Finance Team in complying with the replacement requirements of this policy.
- 4.3** A mileage log will be retained for each vehicle and all users will note the beginning and ending mileage for all trips. This log will be provided to the designated driver upon pickup of keys for use of a vehicle. Under no circumstances may an employee retain the keys or mileage log overnight unless on an authorized, extended trip requiring overnight accommodations. All keys will be returned to the administrative office or central office upon completion of the day's authorized trips.
- 4.4** The Finance Team will ensure that all vehicles are taken to an authorized vendor for maintenance and service. All vehicles will receive appropriate oil changes on a minimum 5,000 mile schedule. Tires will be rotated at the same time and tires will be replaced after 50,000 miles (or sooner) if believed to be worn beyond prudent safety levels.
- 4.5** The Finance Team will submit RFPs to authorized vehicle dealers and service vendors on an annual basis. All vehicles will be serviced by the same designated vendor(s) for this annual contract period. The only exception will be for vehicles, newly purchased or leased, which provide for free maintenance and service as part of its warranty period or any special arrangements made as part of the purchase or lease of the vehicle.
- 4.6** Designated drivers must report any problems or issues identified, upon completion of their daily trip(s), to the Finance Team. A "Vehicle Report" must be completed and submitted to the Finance Team immediately upon return from any trip whereby a problem or issue is suspected or identified.

- 4.7 If any driver is involved in an accident, whether with another vehicle or not, the driver must complete an Accident Report form and submit the report form to the Finance Team immediately upon return to MERF. A copy of the report form and instructions for submitting the report and “what to do if involved in an accident” are included in the Exhibits section.

## 5.1 LEASES

### 5.2 Classification of Leases

It is the policy of MERF to classify all leases in which MERF is a lessee as either capital or operating leases. MERF shall utilize the criteria described in Statements of Financial Accounting Standards No. 13 in determining whether a lease is capital or operating in nature. Under those criteria, a lease shall be treated as a capital lease if, at the time of entering into the lease, any of the following factors are present:

1. The lease transfers ownership to MERF at the end of the lease term;
2. The lease contains a bargain purchase option;
3. The lease term is equal to 75% or more of the estimated economic life of the leased property; or
4. The present value of the minimum lease payments is 90% or more of the fair value of the leased property (using, as the interest rate, the lesser of MERF’s incremental borrowing rate or, if known, the lessor’s implicit rate).

All leases that do not possess any of the four preceding characteristics shall be treated as operating leases. In addition, all leases that are immaterial in nature shall be accounted for as operating leases.

MERF shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms.

**Revision History:**

<b>Revision</b>	<b>Date</b>	<b>Description of changes</b>	<b>Requested By</b>
0	2/14/13	Initial Release	
1	2/14/17	Revise to clarify process	Oswaldo Diaz, CFO
2	3/09/17	Update procedures and process	Nanie Montijo, CFO

**Title:** PYR 101 PAYROLL DESK PROCEDURE

**Policy:** To clearly define responsibilities and procedures in processing the organization's payroll and implementation of the online payroll system in accordance with the generally accepted accounting principles.

**Purpose:** To outline and list areas of responsibilities for each group involved in the payroll process.

**Scope:** This applies to all staff of the organization.

**Responsibilities:**

Human Resources is responsible for setup and maintenance of all employee profiles

School Principal is responsible for accurate and timely submission of each site's attendance, extra duties and assignments.

Finance Team is responsible for review, generation and approval of all payroll.

Back-office service provider is responsible for accurate bookkeeping and analysis of payroll expenses.

**Background:** Personnel Cost is usually 70-75% of the organization's total operating expenses. It is vital that the organization administers the payroll process efficiently and in compliance with education codes and requirements.

**Procedure:**

- **HUMAN RESOURCES**
  - Coordinates job postings and complete new hire paperwork, ensures accuracy and completeness of all new hire procedures and collection of paperwork prior to start of work
  - Processes termination info and informs Finance Team whenever final checks are needed
  - Monitors all credential and other expiration dates
  - Ensures accurate employee withholdings/deductions in 3<sup>rd</sup> party payroll system as agreed to by employee
  
- **EMPLOYEE**
  - Signs in and out of automated system each day
  - Completes employee profile in online payroll system, which generates deductions and provides required information to HR
  
- **PRINCIPAL/SUPERVISOR**
  - Reviews/approves time and attendance reports and submits to Finance Team to initiate payroll processing
  - Enters all supplemental pay in payroll system on or before designated cutoff date
  - Submits signed schedule of all approved supplemental pay (i.e. stipends, home visits, Saturday School extra duty) to Finance Team each pay period
  - Notifies HR of any new hires, terminations, status or pay changes
  
- **FINANCE TEAM**
  - Confirms approvals from principals/HR prior to generating payroll
  - Runs payroll and generates reports for review
  - Reviews each payroll register, verifying:
    - Proper pay rate
    - Hourly staff – number of hours per pay period look reasonable
    - Extra pay/stipends are documented, approved and accurate as to amount and funding source
    - Employee retirement deductions are accurate and reasonable
    - STRS members have earnings properly treated in paycheck and correct STRS rates are being used
    - No OASDI withheld for any STRS members
    - Classified staff – PERS members have proper withholdings and OASDI deducted and correct PERS rates are being used

- Only PERS or STRS creditable earnings are included in deduction calculations
- Non-PERS classified staff hours are being tracked and any newly eligible PERS members (>1000 hours in a fiscal year) are added as PERS members
- Process payroll, prints registers and files all supporting documentation Including but not limited to: STRS/PERS contributions, Other Retirement Contributions, Payroll Tax Reports, Health and Welfare deductions and contributions to service providers
- Processes final paychecks and coordinates with back-office provider for delivery of checks if not processed in-house
- **BACK OFFICE**
  - Process ECR for final paychecks if not processed in-house
  - Uploads journal entries to record payroll in general ledger each pay period
  - Performs analytical procedures on payroll expenses as part of month-end close process

**Revision History:**

<b>Revision</b>	<b>Date</b>	<b>Description of changes</b>	<b>Requested By</b>
0	3/09/17	Initial Release	Nanie Montijo, CFO