



Board Agenda Item #	Agenda # II C
Date:	September 7, 2017
To:	Magnolia Board of Directors- Finance Committee Meeting
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Nanie Montijo - CFO
RE:	MSA 4 and 5 Responses to LAUSD Oversight Visit Reports

Proposed Board Recommendation

Informational/Discussion item, no action required.

Background

LAUSD Charter School Division Staff visited MSA 4 on February 3, 2016 and MSA 5 on January 12, 2017. The oversight reports requires MPS to address the discrepancies and provide actions taken to improve the areas noted in the Fiscal Operations section of each school's 2016-17 Annual Performance-Based Oversight Visit Report, including adherence to fiscal policies.

Budget Implications

n/a

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

n/a

Name of Staff Originator:

Nanie Montijo, CFO

Exhibits (attachments):

MSA 4 Response

MSA 5 Response



Sept 1, 2017

Via Hand Delivery

Jose Cole Gutierrez, Director CSD
Los Angeles Unified School District
333 South Beaudry Avenue, 20th Floor
Los Angeles, CA 90017

**RE: Magnolia Science Academy-4 MERF's Actions Taken in Order to
Address the Discrepancies and Improve Areas Noted in the Fiscal
Operations Section of the 2016-2017 Annual Performance-Based Oversight
Visit Report**

Dear Mr. Gutierrez:

The purpose of this letter is to respond to the Los Angeles Unified School District's ("LAUSD" or the "District") staff report and findings of fact of the Magnolia Science Academy – 4 ("MSA-4" or the "Charter School") oversight visit report.

Below, please find the summary of the findings from the District staff report, immediately followed by the Charter School's response.

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Areas Noted for Further Growth and/or Improvement:

Based on the review of documents received for all eight Magnolia schools, below are the items of non-compliance to the fiscal policies and procedures approved by the governing board of Magnolia Public Schools. Details of the findings are itemized below:

Check Number	Vendor Name	Check Amount	Description of Discrepancies
52118	GE Capital	\$1,443.99	Open payables are reviewed by EdTec and CFO. Policy states, invoices are paid within seven days or sooner of the payment term. Review of the back-up documentation revealed that the approvals (09-16-15) were obtained after services were rendered (07-12-15)
52107	Sprint Solutions, Inc.	\$8,601.84	Open payables are reviewed by EdTec and CFO. Policy states, invoices are paid within seven days or sooner of the payment term. Review of the back-up documentation revealed that the check request was initiated on 8-17-15. The account analysis (7-10-15) revealed that the CMO had knowledge of the outstanding amount which tied back to FY 2014/15 (PO125000785).
DB072715	Flocabulary.com	\$1,200.00	Vendor is not identified in the PO. No indication that Floabulary.com is an approved vendor as per fiscal policies and procedures. (PUR101 3.0 Vendor Selection)
DB101315	EastBay Inc.	\$ 32.70	Vendor is not identified in the PO. A handwritten name of the contact person was written on the PO provided. Per P & P's it stated that, "Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS". (PUR102 General Purchasing, Item 2.1). .
DB101315-1	EastBay Inc.	\$ 603.78	Vendor is not identified in the PO, copies of the invoice which matches the amount paid was provided as supporting documents. Per P & P's it stated that, "Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS". (PUR102 General Purchasing, Item 2.1). .

32122	CoolISIS Technologies Inc.	\$2,338.90	Open payables are reviewed by EdTec and CFO. Policy states, invoices are paid within seven days or sooner of the payment term. This amount represents finance charges on Overdue Balance for Inv. Nos. 1005004, 1005068, 1005194, 1005195, 1005196 & FC 35
8109	West Valley Enterprises	\$10,143.45	Open payables are reviewed by EdTec and CFO. Policy states invoices are paid within seven days or sooner of the payment term. Invoice reflected total invoice amount of \$4,169.70 was over 90 days past due. The invoice covers August 2014 through May 2015 delivery dates. CoolSIS reflected that request for payment was initiated on 06/10/2015.
8191	Hector Uribe	\$1,000.00	The backup documentation revealed that the approvals (10-27-15) was obtained after services was rendered (10-22-15). Open payables are reviewed by EdTec and CFO. Policy states invoices are paid within seven days or sooner of the payment term.
8202	LP Express	\$1,508.00	This was a three part request. Two of the check requests was not supported by an invoice.
23115	PCM-G	\$160,968.27	Vendor is not identified in the PO, Copies of the invoice that was provided as supporting documents did not match the amount paid. Per P & P's it stated that, "Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS". (PUR102 General Purchasing, Item 2.1).
23146	Suat Acar	\$4,028.06	Vendor is not identified in the PO. No indication that Suet Acar is an approved vendor as per fiscal policies and procedures. (PUR101 3.0 Vendor Selection) Per P & P's it is stated that. "Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS". (PUR102 General Purchasing, Item 2.1).

8103	CalNET Technolo gy Group	\$20,519.46	PUR 102 Policy states that all purchases require a request in CoolSIS - No PO was provided PUR 102 Policy states All purchases above \$5,000 require at least 3 quotes to be obtained- no 3 quotes was provided PUR 104 Policy states that the Chief Financial Officer (CFO) is responsible for approving payments under \$10,000 – the payment of this invoice was beyond the authorized amount granted to the CFO to approve.
8182	Semra Oner	\$379.49	Vendor is not identified in the PO. No indication that Semra Oner is an approved vendor as per fiscal policies and procedures. (PUR101 3.0 Vendor Selection) Per P & P's it stated that, "Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS". (PUR102 General Purchasing, Item 2.1). Reimbursement was processed without the itemized report from the hotel detailing all charges. (PUR106 Reimbursements) Per P & P's it stated that, "Travel and Conferences – an itemized receipt from the hotel detailing all charges, the person(s) for whom the lodging was provided, and the specific business purpose."
DB111315-1	Costco	\$197.91	Vendor is not identified in the PO. (PUR101 3.0 Vendor Selection)
DB111315-2	Costco	\$1,089.95	Vendor is not identified in the PO. (PUR101 3.0 Vendor Selection)
DB111715	Telum Advertisi ng Agency	\$2,342.02	A requisition (or other agreement) and an invoice was not provided. Policy states that, non-merchandise expenditures are generally recorded through the purchase order routine. However, there may be other documentation, like contracts, requisitions, and other agreements (PUR 104 2.0 Recording Non-Merchandise Payables).

42146	Edlogical Group Corp.	\$5,325.26	PUR 102 Policy states that all purchases require a request in CoolSIS- No PO was provided PUR 102 Policy states All purchases above \$5,000 require at least 3 quotes to be obtained- no 3 quotes provided PUR 104 Policy states that the Principal is responsible for approving payments under \$5,000 – the payment of this invoice was beyond the authorized amount granted to the Principal to approve
42151	3,380.00	\$3,380.00	PUR 102 Policy states that all purchases require a request in CoolSIS- No PO was provided
62107	CalNET Technology Group	\$11,904.74	PUR 102 Policy states that all purchases require a request in CoolSIS- No PO was provided PUR 102 Policy states All purchases above \$5,000 require at least 3 quotes to be obtained- 3 quotes was not provided PUR 103 Vendor is not identified in the PO Payment was processed without the necessary signatures/approval on the check request form.
62159	Katie Mulvihill	\$75.00	PUR 102 Policy states that all purchases require a request in CoolSIS- No PO was provided Vendor is not identified in the Reimbursement Request form
72206	Alexandra Bracha	\$81.00	PUR 102 Policy states that all purchases require a request in CoolSIS- No PO was provided
72207	Claudia Garcia	\$30.00	Vendor is not identified in the Reimbursement Request form

With the findings stated above, it is noted that although CoolSIS system uses a unique identifier as a purchase order, CoolSIS should be strengthened further, where it will not allow to initiate a purchase order to be generated in the CoolSIS system if the vendor to which the purchase order is being created for is not identified and validated as an approved vendor of the organization.

MPS Response:

MPS is continuously working with Coolsis Business Systems. The following enhancements have been implemented since the 1st oversight visit:

Requestors are no longer allowed to submit a purchase request without a valid vendor name populated. The system will show an "Error: asking for Vendor Name Information. Enhancements have been made that would not allow purchases to be submitted without backup documentation/invoices uploaded into the request.

Local Purchase Authority enhancements have been made on the coding to ensure items are coded before being submitted to bookkeeper. If approver does not select resource items will not approve.

All invoices will have evidence of prior approval, for example, the requester will upload a cart image of their purchase. Submit for approval and then the purchaser will place the order.

All fixed payments have been established as preapproved recurring charges.

Coolsis process has been updated to include 3 quotes on orders \$5,000k and above to be uploaded before invoices are paid.

Staff have updated the Fiscal Procedures and Manual to show 15-21 days process timeline from date of completion before payments are generated.

- Coolsis requests that increases the subtotal without Sales Taxes and Shipping will have to be returned back to local authority approver for additional limit approval.
- MPS has finally centralized all preferred vendors and invoices are being sent to the CMO office for review. Invoices are then routed to school site for processing into Coolsis.

In addition, the following enhancements are in progress and expected to be finalized and implemented by December 2017:

- Budget Tracker Enhancement are presently being made to allow a Budget check on account codes to ensure the items does not exceed budgeted amounts.
- PO History Report to be made available to all users
- Control and lock of fiscal years to discourage unauthorized edits
- Set limits based on authorized levels of approval
- Set an alert feature for pending items on user's queue/dashboard.

Contracts and agreements are up to date and filed by vendor.

A. **Bank Reconciliation: (Citibank Account Ending -5041):**

Reviewed bank statements and reconciliations for October and November 2015, resulted to discrepancy in reporting. It is noted that four checks that were not cleared by the bank are no longer showing as outstanding checks in the November reconciliation.

MPS Response:

EdTec note: This was the first few months following transition to EdTec, and the June bank recs were still being finalized. I am not sure which checks they are referring to here, but it is possible that the bank recs were generated and then later updated after getting the final June bank recs

B. Inventory Control:

Per the approved MPS manual, INV101, 3.0 (Fixed Asset Control and Leases) states that, “Upon 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 capital assets items along with depreciation records which will include the description, date acquired, vendor, cost basis...” During the CMO site visit, inquiry was made regarding Equipment Inventory List, CMO responded that the asset records policy has not been fully implemented at schools sites, the Equipment Inventory List maintained by Accounting is not completed. MPS has contracted with Assetworks to improve inventory control and asset management

MPS Response:

Magnolia’s IT Department maintains an ongoing equipment inventory list for each site. In addition, we are currently working with Asset Works to create an automated inventory system with scanning technology for all types of equipment and inventory.

- Asset transfer- automates the process for requesting an asset be moved from one location to another. May include e-mail notifications and approval routing.
- Change request- enables staff to require approval from the asset custodian or asset manager to make changes to certain asset detail
- Chain-of-custody tracking- creates an audit trail documenting the location, condition, and ownership of an asset at all times
- Check-in/Check-out- enables assets to be checked out to users and then checked back in upon their return
- By automating asset tracking processes, we will be able to create a system of checks and balances that enables peace of mind, discourages the misuse of company assets, and reduces loss and liability.

C. CMO Fee:

During the oversight visit interview, it is noted that MERF did not allocate and reflect in the 2014/15 second interim reports of all eight MSA schools, the one-time board approved management fee in the amount of \$1.7M. This amount represents understatement of prior year CMO fees that should have been charged to the schools. Per the board approved policies and procedures, it states that, any budget adjustments approved by the board should be reflected in the financial reports submitted to the District. The lack of adherence to the fiscal policy during interim reporting presented an inaccurate fiscal position of the school which negates the transparency reporting to stakeholders and impacts the decision making function of the leaders assigned to manage the school.

MPS Response:

Effective fiscal year 2015-2016, MPS has contracted with Edtec to maintain general ledgers, prepare bank reconciliation reports, interim reports, budget development reports, unaudited actuals and year-end reports. Monthly CMO fee transfers are made in accordance with the board approved CMO fee calculations at the beginning of each fiscal year along with the Adopted budget.

D. Pending Items

Based on the review of documents from the oversight visit conducted, there are items that CSD was not able to validate and perform verification on. These items are related to withdrawals, review of cancelled checks, journal entries and status of compliance to settlement agreement and CSD petition benchmarks. CSD will be performing, further inquiries and will request for additional documentation. The findings (if any), will then be communicated through a Notice to Cure Letter.

MPS Response:

Staff will provide documents whenever the request is received.



Sept 1, 2017

Via Hand Delivery

Jose Cole Gutierrez, Director CSD
Los Angeles Unified School District 333
South Beaudry Avenue, 20th Floor
Los Angeles, CA 90017

**RE: Magnolia Science Academy-5 MERF's Actions Taken in Order to
Address the Discrepancies and Improve Areas Noted in the Fiscal
Operations Section of the 2016-2017 Annual Performance-Based Oversight
Visit Report**

Dear Mr. Gutierrez:

The purpose of this letter is to respond to the Los Angeles Unified School District's ("LAUSD" or the "District") staff report and findings of fact of the Magnolia Science Academy – 5 ("MSA-5" or the "Charter School") oversight visit report.

Below, please find the summary of the findings from the District staff report, immediately followed by the Charter School's response.

Sincerely,

Caprice Young, Ed.D.
CEO and Superintendent

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Areas Noted for Further Growth and/or Improvement:

[Hold for Academic team response]

- During the “Segregation of Duties” interview, it was noted that the person placing the orders is the same person receiving the goods. Magnolia schools should update their fiscal policies and procedures to ensure that the person placing the orders is not the same person receiving the goods. The school should distribute the financial duties among multiple people to help ensure protection from fraud and error.

MPS Response:

Effective July 1, 2017, Magnolia Science Academy-5 will use the practice of having the office manager make the purchase requests and the admin team will check the accuracy of receipt and delivery.

- Due to the number of tuition reimbursements MERF should update its Fiscal Policies and Procedures to include guidance on tuition related expenses, including the pre-approval process and the documentation of the pre-approval process and support to ensure that the tuition reimbursements are valid and for the benefits of Magnolia schools.

MPS Response:

MPS Tuition Reimbursement Forms were revised and updated to align with the fiscal policy so that the approving authority and prior approval is clearly defined on the forms

- As of this report writing date, the terms of the fiscal oversight per the March 2015 Settlement Agreement have not being fulfilled. Per the Amended Study Agreement dated August 3, 2016 between MERF and FCMAT, the scope of work was truncated to include the review of the selected transactions for the month of July 2015 for all 8 MSA schools authorized by LAUSD, and the months of August 2015, June 2016 and July 2016 for only MSA 6, 7 and 8. The original Study Agreement had the scope of work to review selected transactions for all 8 MSA schools for each of the month from July 2015 through July 2016. **This was noted in the findings of fact for the Oct. 18, 2016 Board meeting and is deemed unsatisfactory.

MPS Response:

FCMAT was not able to continue with an extended fiscal oversight due to their lack of staffing resources. MPS contracted with School Services of California as recommended by LAUSD and approved by MPS Board of Directors. SSCAL started the fiscal oversight in June, 2017, for all financial transactions during the period January 2017 through June 2017. The LAUSD CSD agreed to this scope as compliant with the settlement agreement and the work is in progress. Both FCMAT and School Services have affirmed that Magnolia Schools is providing documentation in a timely manner.

As per the **CSH107 BANK - ACCOUNT RECONCILIATIONS Policy: 5.5** - Any outstanding checks or deposits in transit over six months old should be reviewed for disposition including write-off by a journal entry. During the review it was noted that MSA 3 contained outstanding items beyond 180 days for the months of February 2016 thru July of 2016. The outstanding items are dated from September 15, 2015 and October 30, 2015. The total number of outstanding checks is two for a total of \$2,129,250.

MPS Response:

Effective May 2017, EdTec sends MPS Finance Department at the end of each month, a list of all outstanding checks, filtering for those identified as greater than 100 days old, with request for review direction to take regarding void/reissue. EdTec takes action once guidance has been provided by the MPS team.

As per the **CSH107 BANK - ACCOUNT RECONCILIATIONS Policy: 2.3** - The bank reconciliation should be signed by the Chief Executive Officer and the School Site Accountant. During the review it was noted that none of the bank reconciliations for the months of February 2016 thru July 2016 were signed by the CEO.

MPS Response:

Per MPS Fiscal Policy, Bank Reconciliations are to be signed by CFO or designee. All Bank Recs are reviewed and electronically signed via email by Senior Account Analysts.

Based on the review of documents received for three Magnolia schools (MSA 1, 2 and 3), below are the items of non-compliance to the fiscal

policies and procedures approved by the governing board of MPS. Details of the findings are itemized below:

Check Number	Vendor Name	Check Amount	Description of Discrepancies
8456	Purchase Power	\$1,249.00	Open payables are reviewed by the School Site Accountant. Accounts payable should normally be paid within seven days or sooner of their payment term unless otherwise determined by the Chief Financial Officer. (PUR104, Pg. 4) Review of the back-up documentation revealed that the school paid Credit and Other Charges & Finance Charges in the amount of \$61.39. The documentation also revealed that the account was 60 days past due and that the account has been suspended.
32182	Mier's Ice Cream Company	\$1,585.00	Open payables are reviewed by the School Site Accountant. Accounts payable should normally be paid within seven days or sooner of their payment term unless otherwise determined by the Chief Financial Officer. (PUR104, Pg. 4) Review of the back-up documentation revealed that the invoice date was 03/06/15 and the payment was processed on 12/04/15. Documentation also contained a Demand/Collection Letter sent by Parker – Standury LLP prior to being paid.

MPS Response:

Staff have updated the Fiscal Procedures and Manual to show 15-21 days process timeline from date of completion before payments are generated.

In addition, the following enhancements are in progress and expected to be finalized and implemented by December 2017:

- Budget Tracker Enhancement are presently being made to allow a Budget check on account codes to ensure the items does not exceed budgeted amounts.
- PO History Report to be made available to all users

- Control and lock of fiscal years to discourage unauthorized edits
- Set limits based on authorized levels of approval
- Set an alert feature for pending items on user's queue/dashboard

DRAFT