



Board Agenda Item #	III B - Discussion Item
Date:	12-5-18
To:	Magnolia Board of Directors- Finance Committee
From:	Alfredo Rubalcava, CEO & Superintendent
Lead:	Nanie Montijo, Chief Finance Officer
RE:	MSA 4 Fiscal Benchmarks

Proposed Board Recommendation

Information and discussion – no actions required.

Background

MSA 4 received the renewal letter dated January 9, 2018 from LAUSD CSD stating LAUSD Board of Education voted to renew with benchmarks the MSA 4 charter for 5 years beginning July 1, 2018 until June 30, 2023. MSA 4 must meet academic and fiscal benchmarks during the 2018-2023 charter term.

Fiscal Benchmark #1-4 has been submitted and completed as of July 12, 2018.

To comply with the requirements of benchmark #5-6, the attached report is presented to board to demonstrate improvements on fiscal management and operations; and continued implementation of recommendations from Fiscal Oversight Report and SSC's Management letter. Please see attached.

Budget Implications

None

Attachments:

MERF's action Plan and Proof of Implementation
LAUSD Renewal Letter with Benchmarks

As per 2017-2018 Annual Oversight Visit Report (Fiscal Operations)	MERF's governing board approved plan of action (meeting date: July 12, 2018)	MERF's governing board approved plan of action (meeting date: December 13, 2018)
Areas noted for further growth and/or improvement:		
1) Bank Reconciliation Reports	All bank reconciliations are reviewed and approved via email by Designees/Financial Analysts on a monthly basis. In order to adopt a recommendation by School Services of California ("SSCal"), as of January 2017 MERF Financial Analysts approve, sign and date all bank reconciliation statements before scanning and emailing the same to MERF's back office provider. The new back office provider Delta Managed Services ("DMS") has been notified of the MERF policy about the bank reconciliation timeline (20th of the following month).	Bank Reconciliations starting July 1, 2018 are prepared by DMS, the new back office service providers. CFO or designee reviews and signs all bank reconciliations before returning to DMS and filing for records.
2) Credit Cards	As of April 2018, all credit cards issued to former employees have been closed. All school site credit cards are held at the home office and are in the name of the CEO. Every month, MERF Financial Analysts review all credit card statements and charges. Balances of all active credit cards are paid in full unless there are disputed transactions.	The credit card processes approved by board of directors in the July 2018 meeting is still being followed consistently every month. All credit cards are paid in full every month. Statements are reviewed and coded correctly by senior financial analysts.
3) Automated Clearing House (ACH)/Recurring Automatic Payments	MERF's Magnolia Public Schools Financial Policies and Procedures Manual, provided to LAUSD on March 1, 2018, covers all payments types regardless of the manner of issuance. However, for the avoidance of doubt and to institute CSD's recommendations, MERF will revise its policy to make it clear that the policy applies to ACH transactions and recurring payment processes. Such revision will be presented to the MERF Board of Directors for adoption at its September 13, 2018 board meeting.	All ACH transactions are in compliance with the board approved MERF Fiscal Policies.
Other Observations:		
1) MERF needs to improve the timeliness of its responses to the CSD	MERF responds as soon as possible to all CSD information requests. Staff adhered to the deadlines the great majority of the time and kept CSD staff informed whenever information could not be provided according to the stated deadline. Prospectively, MERF Staff will inform CSD when requested information cannot be provided by the stated deadline and the reason for such delay. In such instances, MERF staff will provide CSD with its best approximation of when the information will be provided. In all instances, MERF will use its best reasonable efforts to provide the information as quickly as possible.	Staff has been very conscientious in ensuring that responses to emails and requests from CSD staff are provided within 48 hours, if possible.
2) The CSC recommends that MERF update its fiscal policies and procedures to require original detailed receipts for all purchases made via check disbursements or credit cards.	MERF's fiscal policies already require that detailed receipts are required for all purchases made via check disbursements or credit cards. Finance Department staff has commenced and will continue to make regular visits to all school sites to train and review fiscal processes with school staff. On an ongoing basis, MERF Finance Department staff will attend and offer trainings to principals during their monthly meetings at MERF's home office.	Finance team ensures that all reimbursement requests and purchases are supported by detailed receipts and all documentations required based on our fiscal policies.
3) The CSD recommends that MERF present and discuss the CSD's Annual Performance-Based Oversight Reports with its governing board.	MERF staff presented CSD's Oversight report to its Board of Directors during the May 2018 meeting. It was again discussed in more detail at the July 2018 Board of Directors meeting. The approved board minutes for the July 2018 Board of Directors meeting were submitted to LAUSD on August 14, 2018.	MERF staff presented CSD's Oversight report to its Board of Directors during the May 2018 meeting. It was again discussed in more detail at the July 2018 Board of Directors meeting. The approved board minutes for the July 2018 Board of Directors meeting were submitted to LAUSD on August 14, 2018.

As per the SSC's Management Letter (dated July 27, 2018)	MERF's Response	MERF's governing board approved plan of action (meeting date: December 13, 2018)
Current Recommendations		
1) Consider consolidating to one financial system.	<p>MERF previously agreed to Implement a more integrated system structure and a PO system that interfaces with the accounting system in order to create improved overall processes and internal controls. In order to meet this commitment, as of July 1, 2018 MERF transitioned to new back office service provider Delta Managed Solutions, Inc. ("DMS"). DMS uses a financial software package called Escape/SchoolAbility ("SchoolAbility) that incorporates purchasing and accounting processes into one database. SchoolAbility covers purchasing, payables, budget, financial reporting that is SACS compliant and compatible. Significantly, SchoolAbility allows for the generation of real-time reports for budget status, purchase requests, encumbrances, payments processed and other pertinent accounting records. MERF's previous software (CoolSIS and NetSuite) and back office provider did not have the capability to generate real-time reports. MERF will amend its fiscal policy and procedures manual at its October 2018 Board of Directors meeting to reflect the change in financial software. MERF continues to use Paycom software for human resource and payroll functions. Payroll registers are uploaded to SchoolAbility on a semimonthly basis. MERF has reduced the number of software systems it uses from three to two. MERF believes that this change is consistent with the recommendation to streamline services and increase accessibility to information.</p>	<p>The selection of DMS was approved by MERF's Board of Directors. This recommendation has been implemented insofar as establishing a more integrated system and lessening the number of software packages used.</p> <p>As of July 1, 2018, MERF uses two instead of three software packages. MERF will continue to work towards consolidating into one financial software package.</p> <p>Schoolability is currently the financial software being utilized for requisition, purchasing, reimbursements, accounts payable, accounts receivable, general ledger and financial reporting.</p> <p>Paycom is the software being used to maintain personnel records, payroll information and generates pay checks.</p>
2) Consider developing a more streamlined and standardized process for accounts payable.	<p>As mentioned, MERF has hired a new service provider, DMS. DMS uses SchoolAbility which Incorporates all financial processes (including but not limited to purchasing, A/P, bank reconciliation, and state and federal reporting) into one database. MERF's Finance Department has centralized its accounts payable processing to have all invoices go to MERF's head office in order to provide more visibility of MERF's different vendors, their terms and conditions and to more closely monitor aging of payables. In addition, all approval processes are integrated into the SchoolAbility software (including home office executive team and school site principals' routing and approval, as required per MERF fiscal policy handbook) thereby creating an appropriate audit trail. The approval process is enhanced because Finance Department staff review all purchase requisitions, payment requests and employee reimbursements.</p>	<p>The selection of DMS and the use of SchoolAbility was approved by MERF's Board of Directors. The new financial system is more streamlined and standardized in processing purchase requests, payables, reimbursements and budgets.</p>
3) Consider reviewing cash receipts for timely deposits.	<p>MERF Finance Department staff will continue to support school staff in making timely cash and check deposits. Finance Department staff will continue to make regular visits to all school sites to train and review fiscal processes with school staff. For example, from July 30, 2018 to August 2, 2018, Finance Department staff attended and participated in beginning of school year professional development training for office managers and principals. On an ongoing basis, MERF Finance Department staff will attend and offer trainings to principals during their monthly meetings at home office. MERF Finance Department staff will continue to monitor the timeliness of cash and check deposits. Where noncompliance is found, MERF Finance Department staff will work with the noncompliant school or staff to address and remedy any issues that contribute to noncompliance.</p>	<p>Continues trainings and communication with site staff is ongoing. CFO meets with all principals every month during the principals' meeting to address current issues and provide additional training. In addition, Senior Financial Analyst conducts site visits at least once a month to all school sites.</p>
4) Consider reviewing cash deposits for appropriate coding.	<p>Effective July 1, 2018 all transactions will be in compliance with SACS coding. Unlike its previous software, SchoolAbility is SACS compliant. MERF Finance Department staff will review all coding and GL postings before submission of interim reports and unaudited actual thereby insuring that all transactions are codified to the correct account.</p>	<p>Schoolability is a SACS compliant financial software. All transactions are coded based on CDE's SACS. Each entry is reviewed and approved by MPS Senior Financial Analyst and CFO before posting.</p>



LOS ANGELES UNIFIED SCHOOL DISTRICT
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January 9, 2018

Dr. Caprice Young, Lead Petitioner
Magnolia Science Academy 4
11330 W Graham Place
Los Angeles, CA 90064

Sent By Email and U.S. Mail

Dear Dr. Caprice Young:

Congratulations! On November 7, 2017, the Los Angeles Unified School District (LAUSD) Board of Education voted to renew with benchmarks the Magnolia Science Academy 4 charter for 5 years, beginning July 1, 2018, until June 30, 2023, to serve 240 students in grades 6-12 in year 1 and up to 360 students in grades 6-12 by the end of the charter term.

We, the LAUSD Charter Schools Division, look forward to continuing to work with you throughout the term of the charter. As your assigned administrator from our office, I will continue to keep in close contact with you in order to perform our state-mandated oversight duties. If this assignment should change, we will notify you of the change and provide contact information for your new administrator.

Please keep in mind, Magnolia Science Academy 4 must meet the following academic and fiscal benchmarks during the 2018-2023 charter term as described below:

ACADEMIC BENCHMARKS

The school shall provide an update to the Charter Schools Division no later than December 15th of each year of the charter term (after CAASPP (SBAC) scores have been released by the CDE).

1. The school will demonstrate at least one performance level growth per academic year, as reported on the California School Dashboard, for numerically significant subgroups in ELA as measured by the CAASPP (SBAC) Assessment at a rate equal to or greater than the Resident and Similar Schools Median, with the goal of achieving and maintaining the “Green” performance level or higher.
2. The school will demonstrate at least one performance level growth per academic year, as reported on the California School Dashboard, for numerically significant subgroups in Math as measured by the CAASPP (SBAC) Assessment at a rate equal to or greater than the Resident and Similar Schools Median, with the goal of achieving and maintaining the “Green” performance level or higher.

FISCAL BENCHMARK

1. The school shall provide the Charter Schools Division (CSD) the complete, executed service contract signed between Magnolia Educational & Research Foundation (MERF) and School Services of California's (SSCal), as approved by MERF's governing board on May 20, 2017, no later than November 30, 2017. This contract shall reflect SSCal's scope of work for the six-month period spanning from January 2017 through June 2017.
2. MERF shall continue to apprise the CSD of SSCal's findings and recommendations pertaining to its reviews of Magnolia schools' May and June 2017 transactions. MERF will provide the CSD with SSCal's review status in writing on a monthly basis, beginning December 1, 2017, until SSCal completes its six-month reviews.
3. MERF will provide the CSD with SSCal's management letters and MERF's action items in response to SSCal's findings, if any, within 30 days from the date of the management letter issued by SSCal. SSCal's final management letter, along with MERF's response and action items, shall be provided to the Charter Schools Division no later than December 1, 2018.
4. Upon the CSD's review of SSCal's first six (6) months of oversight when completed, the District will determine if it is necessary to extend SSCal's oversight period, pursuant to the February 8, 2017 letter issued by LAUSD legal counsel to MERF, which states, "MERF must remain subject to fiscal oversight by FCMAT or an equivalent entity for six (6) consecutive months in 2017, to commence as soon as possible, with an option, at the District's request and sole discretion, to extend the oversight depending on the results of the first six (6) months of oversight." MERF may *not* terminate or cease SSCal's work without the CSD's or District's prior consent in writing.
5. MERF will continue to take steps to remediate its fiscal practices and demonstrate improvement in its fiscal management and operations, based on the recommendations made by the Fiscal Crisis & Management Assistance Team and SSCal, through the end of the term of MSA 4's charter or by the end of fiscal year 2022-2023.
6. MERF must provide an annual update to the Charter Schools Division starting by December 15 of each year through the end of the term of MSA 4's charter or by the end of fiscal year 2022-2023, as to its progress in improving the school's fiscal management and operations as mentioned in the fiscal benchmark 5 above.

Please communicate with us by February 6, 2018 the name of the person who will be responsible for monitoring and following up on the benchmarks during the term of the charter.

Again, we congratulate your accomplishment and offer our best wishes as you continue to serve the students at your school and move forward the work of providing an excellent educational opportunity for all students.

Sincerely,

Yolanda Jordan

Yolanda Jordan
Specialist

Attachment: Stamped Board of Education Order of Business

c: Dr. Robert Perry, Administrative Coordinator
James Robinson, Fiscal Administrator
René Cardona, Senior Coordinator
Lillian Lee, Fiscal Oversight Administrator
Lourdes Echevarria, Fiscal Services Manager
Saken Sherkhanov, Ph.D., Magnolia Public Schools Board President