



PALISADES INDEPENDENT CHARTER HIGH SCHOOL

**ASSESSMENT OF NEEDS/OPPORTUNITIES
TO IMPROVE PROCESSING OF
HUMAN RESOURCES/BUSINESS/PAYROLL ITEMS
FOR
PALISADES INDEPENDENT CHARTER HIGH SCHOOL**

Conducted by: Donna Rose
DRose@aalrr.com

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Background: Education Support Services consultant (Donna Rose, “Consultant”) was contacted to assist Palisades Independent Charter High School (“PCHS”) in assessing areas that can be improved in Human Resources, Business Services and payroll processing. PCHS has experienced payroll check errors, lack of clarity of contract terms, questions about system efficiencies and organization responsibilities between the HR department staff and the Business Staff. Consultant held an introduction meeting in December attended by Dr. Pamela Magee (Principal/Executive Director), Amy Nguyen (H.R. Director) and Greg Woods (CBO). The following areas of concern were raised:

1) H.R. Department/Payroll Department Interactions

- a. Lack of checks and balances
- b. Lack of trust by employees/unions in practices/accuracy
- c. Process is not transparent
- d. Lack of a documented process for hiring/payment approval
- e. Position control system is not strong, and is not integrated
- f. Payroll is separate system, not integrated to HR or Financial System

2) Financial Reporting Questions

- a. Lack of understanding on the way the financial position of the school is reported, especially regarding depreciation expense and net position. Unions do not understand the difference from public school districts reporting.
- b. Effect on negotiations process- unions do not trust the financial status reporting.

Initial Assessment Process

Consultant met and conducted interviews on January 11, 2018 with HR Director, HR Specialist, CBO, and Payroll Fiscal Specialist. Interviews ranged from 15 minutes to 2 hours, concentrating on the first area of concern above. Staff was extremely professional and courteous. Each expressed common concern about improving the processes and needed clarity in the documentation of payroll entries. These interviews have indicated several key areas to concentrate efforts, but further investigation and

work would need to be done to get a more thorough analysis of the payroll and business systems and the potential to automate some functions. Consultant has interacted with HR Director via email and phone on several occasions since the initial interviews and provided some sample documents for consideration. Here are the initial areas of “opportunity” and recommendations from the consultant.

Areas Noted During Initial Assessment

- 1) **Labor Contract Documents.** The UTLA agreement is currently based on a former LAUSD agreement from 2008-2011 that has been redlined to eliminate language not pertinent to PCHS and additional 200 pages of Tentative Agreements and Memorandums of Understanding negotiated in years since. The school does not have a current updated workable contract document. Staff, employees and union officials do not have clear, concise, easily researched documentation of previous agreements. PCHS Administration and union officials will begin negotiations this spring on a new complete contract. It will assist in the negotiations process if all members of the negotiations team are working with a document that contains current, agreed-to language.

Recommendation: Work on getting a draft of current contract language (consult with District attorney if needed) that can be reviewed and agreed to as the starting point for your upcoming negotiations.

- 2) **Documentations of Existing Extra Duty Schedules.** The existing stipends and extra pay would normally be documented in either a contract article or an appendix to a contract. The information does exist in various formats but is not easily interpreted and does not document the processes and procedures.

Recommendation: Work on a publishable schedule of the existing stipends that can be earned by staff. Document the process for posting, hiring, approval, amount of stipend, and timing of payments for transparency and clarity for all staff, especially those that have responsibility over the stipends. In addition, a schedule (Excel) format that can be shared by HR/ Payroll can be refined in a more usable format to document who is hired each year, and when payments are due.

- 3) **Document Process for Personnel Requisitions.** A form and clearly articulated process can be developed and used for all processes that will result in new staff, replacement staff, extra hourly assignments, stipends, coaching, for example. A process would start with the person responsible documenting the need on a form that would go to HR. It would then get appropriate approvals (depending on type) and end with the completed form (or copy of) going to payroll to alert the payroll clerical of the impending hiring and payroll entries.

Recommendation: Work together with HR/Business/staff (possibly union leadership) to review a process that documents the initiation of work requests, the approval process, that pay and timing of pay, meeting contractual obligations and best practices.

- 4) **Review of Payment Trigger Process.** To prevent missed payments and/or incorrect payments, there needs to be a more complete review and discussion of how payments are approved and placed on the payroll check. This is an area that could benefit from automation and review of how the information is collected. Further research is required before developing recommendations, but there is great potential to increase accuracy and improve the process. PCHS is not using time sheets in this process and some circumstances should be considered using time sheets as a "best practice." See note #1 below for recommendation from FCMAT as to best practices in this area.

- 5) **Position Control and Integration of Payroll to Finance:** PCHS lacks a true and integrated position control system. Position control is a best practice that every organization benefits from, large or small. Fields exist in the ADP system for position number, but it does not appear to be used as position control in the true sense. Further research is needed to establish current process and potential to implement a position control system.

Recommendation: Work with staff to understand the benefits position control, integrated payroll and financial systems. Determine the potential of a new system implementation that is on the horizon and may be tested soon.

- 6) **Athletic Stipends/Coaching Positions:** The documentation of stipends in this area would be part of #2, and the process would also be considered under #3. Hiring of coaching staff has unique requirements, and there may be some improvements to your process that can be considered. Further information is needed on the role of your Athletic Director and the hiring process for coaches. Consultant has provided HR with sample schedules and hiring considerations.

Recommendation: Review the logistics and process of hiring and retaining coaches. Develop some tracking tools and define the timeline.

- 7) **Review of HR Duties / Payroll Duties:** The process of submitting time worked/time off (absence) is currently shared by the HR Specialist, the Time and Accounting Specialist, and the payroll clerical. There needs to be clearly defined responsibility for each position. The manual process and transferring of data from one system to Excel spreadsheet to payroll system is prone to errors. The other concern would be backup training for these duties, if the clerical person is off/sick. Could PCHS process payroll if staff is ill/injured or leaves?

Recommendation: Document the steps to record time worked/time off and align the responsibility to the proper work station. Look at the process to determine if this can be automated (at least partially) to save manual time. Consider cross training of staff to cover absences. Please see note #1 to a study done by FCMAT with guidance in this regard.

- 8) **Office Space/Location:** Observation of the space allocated to the processing of payroll/ HR functions. The space is small, lacks file security, is not "confidential" for private conversations with employees when needed, and has a "messy" appearance. Appearances matter when the desired goal is to increase confidence in the accuracy of the work. Confidential matters lack privacy in both the payroll office and the Director/HR office.

Recommendation: With the understanding that space on the campus is probably hard to find, consideration for an improved location, preferably closer to HR Director/CBO, with ability to have a workable space, locking and secure files, and where confidential conversations can be held.

Concerns in HR/Business/Payroll Processing:

Consultant has begun to work with HR Director in forms/procedures and has forwarded samples of personnel requisitions from other school organizations for comment and review. Consultant has forwarded to the HR Director a revised schedule of Coaching Stipends for review and comment.

Upon review by PCHS Administration, Consultant recommends developing a further action plan on items 5 and 7. # 8 (office space) is a topic given for your consideration.

Concerns about Financial Reporting:

Consultant has conducted initial research into the methods used to report the financial position and finds that the accrual method used by Palisades Charter High School is allowed and it is the more common method used by most charter schools. Guidance on this topic can be found in the California School Accounting Manual (CSAM) Procedure 810 for Charter Schools. Specifically, on page 810-1, it states the following: ***“Not for Profit charter schools approved under Education Code Section 47604 that operate as or are operated by a nonprofit public benefit corporation pursuant to Section 501(C) (3) of the Internal Revenue Code typically use the not-for-profit accounting model and the accrual basis of accounting.”***

Additionally, the California Department of Education has provided Charter School Accounting Guidance in the “Charter School Alternative Form User Guide” (see note #3) that has a good definition of the differences in the bases of accounting for public schools, versus charter schools:

“The most noticeable difference between the two bases of accounting as presented in the Alternative Form is that governmental agencies (such as school districts) use the modified accrual basis of accounting and do not show depreciation expense, capital assets, long-term liabilities, and net position in their

financial statements.” Further in the same section: “Charter schools approved pursuant to Education Code Section 47604 that operate as, or are operated by, a not-for-profit public benefit corporation pursuant to Internal Revenue Code Section 501(c)(3), typically use the accrual basis of accounting and report depreciation expense, capital assets (in assets), interest on long-term debt (in debt service), long-term liabilities (in liabilities), and net position in objects 6900, 7438, 9400–9489, 9660–9669, 9796, and 9797. These charter schools do not record capital outlay, debt service expenditures, and fund balance in objects 6100–6170, 6200–6500, 7439, and 9711–9789.”

As Palisades Charter High School is a not-for-profit public benefit corporation, it is consistent and appropriate to use the accrual basis of accounting. Accrual basis means that revenues are recognized when they are earned, and expenditures are recognized when the liability is incurred. Further guidance on Charter School Accounting and Best Practices can be found in the October 2017 manual published by the Fiscal Crisis and Management Assistance Team (FCMAT) available on their website: <http://fcmat.org/california-charter-school-accounting-and-best-practices-manual/>

Chapter 12 of the FCMAT Charter School Manual specifically addresses fixed assets and depreciation expense. The manual specifies the following for charter schools:

“To ensure consistent financial reporting and tax compliance, the depreciation method and expected life of an asset must be selected when it is first placed into service. A charter school should use the straight-line method of depreciation.”

Consultant has not completed an in-depth analysis of the specifics of PCHS’s reports, especially the depreciation expense as reported, but will do so if requested. To alleviate some concerns raised by the unions, it may be advisable to develop some presentation materials that will simplify and explain the net position of the District, depreciation schedule of assets, and go into details regarding any carryover monies, difference in closing of the books and budget from the prior year, and full detailed explanations of

multiyear projection assumptions. Transparency and clear materials build trust in the financial reporting. Consultant will assist in this as requested by PCHS.

Notes:

1. FCMAT published a study completed in October 2017 for El Camino Real Charter High School (<http://fcmat.org/wp-content/uploads/sites/4/2017/10/El-Camino-Real-Charter-HS-Management-Letter-10-2-17-1196.pdf>). The study (pages 11-13) analyzes a school with very similar circumstances as Palisades Charter High School. Pages 11 and 12 specifically outline industry best practices for maintaining strong internal controls and the division of functions that Consultant is recommending Palisades consider and adopt. The study recommends Implementing a fully integrated financial system, an integrated HR module (position control), and a review that, for any changes, proper control and division of labor is maintained between HR and the Business Department (recommendation #4).

Respectfully submitted,

Donna Rose

ESS Consultant