



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: MERF's Response to FCMAT Final Management Letter

Dear Mr. Gutierrez:

The purpose of this letter is to respond to FCMAT's staff report and findings of fact of the Magnolia Science Academies fiscal oversight management report.

Below, please find the summary of the findings from the FCMAT staff report, immediately followed by the MERF's responses.

Respectfully,

Caprice Young, Ed.D.
CEO & Superintendent

Magnolia Public Schools Response to FCMAT Recommendations

July 2015

New Employees

Recommendations

The charter schools should:

Ensure that all new employees complete proper hiring documentation and procedures prior to their first day of work including, but not limited to, signing an employment contract and completion of a PERS/STRS certificate.

Review their employee records to determine the date each eligible employee qualified to participate in PERS/STRS and compare that to the reporting made to the applicable agency. If the charter finds that employees qualified but were not enrolled, or were not enrolled timely, work with PERS/STRS to update their reporting and determine if any penalties and/or interest are due.

Response- New employees are no longer given a company email address or access to our HRIS-Employee Self Service System until all relevant hiring documentation is collected and uploaded into PayCom. This school year (2017-18), for the first time in MPS history, the HR and Finance teams were a part of the personal development held at the beginning of the year. We made it mandatory for all New Hires to attend the HR sessions (Two sessions, 2 ½ hours each). By holding these extra meetings, we were able to present our progress reports and capture any new hire that possibly missed uploading documentation. Additionally, we were able to discuss STRS/PERS in detail, then disseminate and collect the STRS/PERS enrollment forms.

Recommendations

The charter schools should:

1. Include a specific implementation date and language to identify the positions/classifications affected on all board agenda items related to payroll increases.
2. Carefully review base salaries to ensure against over- and under-payments.
3. Carefully review their application of the points associated with employee qualifications pay to ensure that the final calculation complies with the formula approved by the board in the 2015-16 Pay Raise Salary Scale.
4. Develop a salary schedule for positions with hourly rates of pay.
5. Ensure that supporting documentation exists for all elements of a payroll transaction including gross pay, whether that is salary or timesheet/hourly pay, payroll increases/changes, PERS/STRS, declination of health insurance, vacation pay and stipends. Keep such items in individual payroll files.
6. Carefully review the payroll registers to ensure that all required statutory benefits are paid.
7. Review the payroll registers in conjunction with the journal entries made by EdTec to ensure that payroll information has been correctly recorded in the general ledger.

Response: MPS has a list of available positions throughout the district. From time to time, each individual school site will have an available position with similar job characteristics as an approved job title, but change said job title based on 1 or 2 varying characteristics. For example, an Office Technician is the same as an Office Manager. To date, all available positions are being evaluated/consolidated and uploaded into our HRIS.

The HR Team collected data to review possible discrepancies in base salaries to ensure against over- and under-payments. Prior to the next semester in the current school year, MPS will pay those differences (ETA 12/15).

At the beginning of the 2017-18 school year, the HR Team held trainings with leadership responsible for making job offers on the application of the points associated with employee qualifications pay to ensure that the final calculation complies with the formula approved by the board in the 2015-16 Pay Raise Salary Scale.

Additionally, with utilizing the Personnel Action Forms in the HRIS system, school leadership is now tasked with applying the points to new hires salaries and forwarding to their regional directors, then to HR, then to the CEO. With multiple reviewers, there is increased opportunity to catch potential errors.

For the current school year, the utilization of PAF's and switching to electronic recordkeeping has helped ensure that supporting documentation exists for all elements of a payroll transaction including gross pay, whether that is salary or timesheet/hourly pay, payroll increases/ changes.

Individual payroll files per EE contain PERS/STRS enrollment forms, PayCom houses all declaration of health insurance per EE via reports, vacation pay and stipends are recorded via PayCom this year.

August 2015
Recommendations

The charter schools should:

1. Ensure that all new employees complete proper hiring documentation and procedures prior to their first day of work including, but not limited to, signing an offer of employment and employment contract, completion of Form I-9, TB test requirements, fingerprinting and criminal background clearance and completion of a PERS/ STRS certification form.
2. Review their employee records to determine the date each eligible employee qualified to participate in PERS/STRS and compare that to the reporting made to the applicable agency. If the charter finds that employees qualified but were not

enrolled, or were not enrolled timely, work with PERS/STRS to update reporting and determine if any penalties and/or interest are due.

Response: To ensure that all new employees complete proper hiring documentation and procedures prior to their first day of work, all new staff for the current school year were not given access to the HRIS system/scheduled trainings and a company email until all pre-hire documentation was received in their assigned checklists. Documents uploaded by the individual employees include:

- Signed offer of employment and agreement
- Completion of Form I-9 (With Principal)
- TB test requirements
- Fingerprinting and criminal background clearance letter
- Completion of a PERS/ STRS certification form

In order to support the finance team, HR continuously runs reports of all STRS/PERS eligible staff so they can determine the date each eligible employee qualified to participate in PERS/STRS and compare that to LACOE. If the district finds that employees qualified but were not enrolled, or were not enrolled timely, Finance works with PERS/STRS to update reporting and determine if any penalties and/or interest are due.

May 2016
Recommendations

The charter schools should:

2. Include a specific implementation date and language to identify the positions/classifications affected on all board agenda items related to payroll increases.
3. Carefully review base salaries to ensure against over- and underpayments.
4. Carefully review its application of the points associated with employee qualifications pay to ensure that the final calculation complies with the formula approved by the board in the 2015-16 Pay Raise Salary Scale.
5. Develop a salary schedule for positions with hourly rates of pay.
6. Ensure that both the employee and their supervisor execute all timesheets.
7. Carefully review, verify and math check all timesheets to ensure proper payment to employees.
8. Develop a timesheet/time keeping system to track employees' start/stop times for meal/rest periods.
9. Ensure that supporting documentation exists for all elements of a payroll transaction including gross pay, whether that is salary, stipends or timesheet/hourly pay, payroll increases/changes, PERS/STRS, declination of health insurance, vacation pay and stipends. Keep such items in individual

payroll files. Items associated with rates of pay such as salary or stipend schedules and hourly pay rates should also reflect approval by the governing board.

10. Reconcile the amounts paid to employees with the amounts contained in the employees' final offer letters to resolve rounding and keying errors in gross wages. Ensure payment shortfalls are returned to employees and overpayments are collected from employees.
11. Reconcile and adjust the general ledger PERS expense to the amounts actually paid.
12. Carefully review the payroll registers to ensure that all required statutory benefits are paid and that proper percentages are used in their calculation.
13. Ensure payroll report files include documentation of any corrections made to provide a complete record of the transaction.

Response: With regard to a standardized schedule of hourly rates, the HR Director and CFO have begun reviewing current salaries with respect to tenure to build a baseline to ensure future consistency when paying employees in the same job classification.

To ensure the accuracy of employee time sheets, ALL time is recorded via PayCom with no exceptions. There is a shared responsibility for both the employee and their supervisor to execute all timesheets within the system. There are timestamps of all changes made and staff are only paid for time they actually work. Managers/Supervisors fully review and verify all timesheets within the PayCom system to ensure proper payment to employees each pay period.

PayCom is the time keeping system to track employees' start/stop times for meal/rest periods and supervisors/managers are the approvers at each site with home-office oversight (Within the system). There are 3 levels of approvals.

June 2016
Recommendation

The charter schools should:

Carefully review payroll registers prior to submittal for processing to ensure that the signatures of both the person who prepared the payroll and the person who approved the payroll are contained on the documents.

Response: MPS now has a dedicated Payroll team to review payroll registers prior to submittal for processing to ensure that the signatures of both the principal who prepared the payroll and the person who approved the payroll are contained on the documents.

Recommendations

The charter schools should:

1. Include a specific implementation date and language to identify the positions/classifications affected on all board agenda items related to payroll increases.
2. Carefully review base salaries to ensure against over- and underpayments.
3. Carefully review its application of the points associated with employee qualifications pay to ensure that the final calculation complies with the formula approved by its board in the 2015-16 Pay Raise Salary Scale.
4. Develop a salary schedule for positions with hourly rates of pay.
5. Ensure that both the employee and their supervisor execute all timesheets.
6. Carefully review, verify and math check all timesheets to ensure proper payment to employees. If employees submit an adjusted timesheet, mark the previous submission as having been superseded.
7. Develop a timesheet/time keeping system to track employees' start/stop times for meal/rest periods.
8. Reconcile the amounts paid to employees with the amounts contained in the employees' final offer letters to resolve rounding and keying errors in gross wages. Ensure payment shortfalls are returned and overpayments are collected from employees.
9. Review timesheets associated with stipends to ensure that the functions listed are those that qualify for stipends and that the employee has provided all of the required sessions associated with the ASES stipends. Implement tracking mechanisms so that, should an employee reach a fifth non-qualifying/missed session, their stipend is withheld and Magnolia does not have to recapture payment.
10. Reconcile and adjust the general ledger PERS expense to the amounts actually paid.
11. Conduct a thorough audit of all employees to ensure proper enrollment in the applicable retirement system, and be prepared to pay the employer and employee share of contributions to date as well as any interest and penalties levied by PERS.
12. Review all health and welfare benefits deductions made to employee payroll to ensure that proper amounts were withheld, and return any overages to employees immediately.
13. Ensure that supporting documentation exists for all elements of a payroll transaction including gross pay whether that is salary, stipends or timesheet/hourly pay, payroll increases/changes, PERS/STRS, declination of health insurance, vacation pay and stipends. Keep such items in individual payroll files. Reflect approval by the governing board for items associated with rates of pay such as salary or stipend schedules and hourly pay rates.
14. Carefully review the payroll registers to ensure that all required statutory benefits are paid and that proper percentages are used in their calculation.
15. Ensure payroll report files include documentation of any corrections made to provide a complete record of the transaction.
16. Review the payroll registers in conjunction with the journal entries made by EdTec to ensure that payroll information has been correctly recorded in the general ledger.

Response: MPS has a list of available positions throughout the district. From time to time, each individual school site will have an available position with similar job characteristics as an approved job title, but change said job title based on 1 or 2 varying characteristics. For example, an Office Technician is the same as an Office Manager. To date, all available positions are being evaluated/consolidated and uploaded into our HRIS.

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Additionally, with utilizing the Personnel Action Forms in the HRIS system, school leadership is now tasked with applying the points to new hires salaries and forwarding to their regional directors, then to HR, then to the CEO. With multiple reviewers, there is increased opportunity to catch potential errors.

For the current school year, the utilization of PAF's and switching to electronic recordkeeping has helped ensure that supporting documentation exists for all elements of a payroll transaction including gross pay, whether that is salary or timesheet/hourly pay, payroll increases/ changes.

Individual payroll files per employee contain PERS/STRS enrollment forms, PayCom houses all declination of health insurance per employee via reports, vacation pay and stipends are recorded via PayCom this year.

For the upcoming school year, the HR team held an event to kick off open enrollment into health and wellness benefits. Training has been provided to staff for the use of the Employee Self Service system in which they elect their benefits.

Previously (Before PayCom and Montage), staff worked directly with the benefits broker of Health Care solutions. If there were changes made during the plan year, MPS wasn't privy until the following week.

Accounts Payable

July 2015

1. Ensure that all purchases and disbursements, including debit card transactions, have documented preapproval, which includes a purchase order and/or contract.

Response: AP uses CoolSIS for the approval process all backup should show either CoolSIS History Timeline for prior approval or email attachment showing prior approval

2. Ensure that the person approving an invoice for payment signs it stating it is accurate and has been verified.

Response: Implemented effective January 2017.

3. Stamp invoices “paid” once processed.

Response: We do not stamp invoices Paid – paperless system, invoices are saved as soft copy, AP invoices are saved in batches and clearly named, check copies are saved in the related folder

4. Include the description and detail of journal entries on the general ledger rather than leaving these items blank.

Response: Point of clarification – every transaction in the accounting system has a description; there are two fields where descriptions may reside: Description or Memo. Original general ledgers submitted to FCMAT only included the Description field. Later versions were delivered with both Memo and Description

5. Process transactions with the appropriate account code rather than as uncategorized or through a temporary clearing account.

Response: EdTec continues to use 7999 and 8999 for recording transactions where cash has been impacted but no supporting documentation has been received. This allows us to maintain accurate cash balances and reconcile bank accounts in a timely manner as we await supporting documentation from MPS. We have an ongoing detailed data collection process where these accounts are reviewed, submitted to MPS to provide requested info, and cleared at the end of each month.

6. Renew contracts, as applicable, and complete purchase orders annually for monthly ongoing expenses, including ACH transfers.

Response: MPS reviews and renews contract and debit expenses on a fiscal year basis.

7. Include the vendor name on all purchase orders, including those for debit card purchases.

Response: CoolSIS backup has vendor information.

8. Pay invoices in a timely way.

Response: Currently MPS is centralizing the invoice process to have all invoices come to CMO office to provide more visibility of our different vendors, their terms and Open Invoice Balances.

9. Use separate and distinct transaction type names in the general ledger for ACH transfers and paper checks.

Response: EdTec uses the transaction number to distinguish whether a transaction is an ACH or paper check. Items beginning with DB are debit or ach transactions. Items beginning with M are manual checks (however, MPS does not have the ability to write manual checks, so there should not be any manual checks to record). For Cashier's checks, these are entered by our accounting staff by journal entry, with identifier being a JV number (ex. MSA1234)

10. Process check requests only with authorizing signatures.

Response: EdTec relies on MPS to provide clear documentation of approved signors. We maintain facsimile stamps and utilize them only upon written consent of the approver/signor at MPS.

11. Ensure that payments are made from invoices, not estimates.

Response: EdTec's standard practice is to only pay from invoices, not estimates or statements.

12. Ensure that notations are made on invoices if the payment amount differs from the invoice amount.

Response: MPS Bookkeeper will add additional notes identifying any discrepancy between approved PO and Invoice amount

13. Determine if payments to individuals for home visits should be made through the payroll process.

Response: This was identified early on and EdTec's client manager advised MPS to pay all home visits and other stipends through payroll and never by check. Some transactions were processed early during the transition to EdTec, and MPS changed their process for these after July.

14. Obtain proper authorization and increase the purchase order amount if a transaction exceeds the initial authorized amount.

Response: MPS Bookkeeper will send before purchase an email to Approving Authority to require additional approval before purchase. This is not done if the increase is due to Shipping and Sales Taxes. We require itemized receipts or invoices for transactions, and do not make payments based on bank statements. MPS. EdTec will not process payments based on bank statements; these instances identified by FCMAT were related to debit/ach transactions initiated by MPS.

August 2015

Expend fundraising dollars in the appropriate fiscal year.

Response: There are certain fundraising accounts defined by site principal such as senior fundraiser account. Related staff makes/leads fundraiser activities, and deposit the raised funds to the school's bank account and EdTec reconciles with specific intended fundraiser account. If no specific account mentioned, then raised funds go to general fundraiser account. Anytime staff members request a purchase to be done, they get a preapproval from site principal by proving that they raised enough funds to cover the planned purchase. Throughout the year all purchases are done respectively. In case not enough funds in the corresponding account exist, the principal can authorize the purchase to be done via general fundraiser account. All left over funds are rolled over to the following year to stay in the same account.

May 2016

Include the board approval date and/or excerpt from the board meeting minutes as backup documentation for those items that require board approval.

Response: MPS does include backup Board Agenda and Approved minutes for all items over \$25,000.

June 2016

1. Ensure invoices are paid for the correct amount, and total all invoices being paid with the invoice batch total to verify.

Response: This is currently being implemented by review of the weekly Invoice Approval Required.

2. Process check requests only with authorizing signatures.

Response: Emergency Check Requests (ECR) are the only Check Requests and they are only approved by CEO or CFO as per policy

3. When making reimbursements, attach documents that show the employee has paid for the item for which reimbursement is being requested.

Response: MPS requires supporting backup for all reimbursement requests. If they attended a meeting or training documentation to show proof of attendance is required. Maps print out is required for travel to document mileage.

4. Adopt a board policy regarding if and when student awards will be allowed.

Response: Pur106 of the Fiscal Policies Manual as approved by the Board of Directors covers student award policy.

5. Do not pay invoices that are for another entity, such as the Magnolia Foundation.

Response: MPS gets reimbursed for all invoices paid on behalf of another entity such as MPM Inc.

Bank Reconciliations - Recommendations

1. Include a description for each transaction on the general ledger and reconciliation detail report.

Response: Bank reconciliation format has been updated to now include descriptions for each transaction on the bank reconciliation report.

2. Include the details of checks and payments for journals posted to the general ledger. If posted as one large sum, include the breakdown of individual transactions in backup documentation.

Response: Details are now included on bank reconciliations.

3. Include outstanding items by individual check number on the reconciliation detail report to properly verify when each item has cleared the bank.

Response: This was an isolated situation related to transitioning from one accounting system to another. Prior system outstanding items were recorded by journal entry, and the bank reconciliation combined the journal lines into one amount on the bank rec. The details were available in the accounting system and supporting documents, but not the face of the standard bank reconciliation. Supplemental schedules with the details were provided to FCMAT.

4. Include manual check numbers on entries to the reconciliation detail report for uncleared payroll expenses.

Response: This is now being done.

5. Post corrections to the general ledger using the same account code as the original transaction.

Response: This is being done. Standard practice is to post corrections using the same account code as original transaction.

6. Ensure that the monthly bank statement is reconciled to the general ledger and that all transactions on the reconciliation detail report are also reflected on the general ledger.

Response: This is standard practice. The July bank reconciliations had some anomalies due to it being a transition month and the June bank records not being finalized at the time July bank records were completed. Review later reconciliations to validate that the current process is effective and reasonable.

7. Include the signatures of the individual who prepared the bank statement reconciliation and the individual who reviewed/approved it, and the respective dates of same, on the reconciliation documents.

Response: EdTec operates in a paperless environment, and evidence of who completed and who reviewed bank reconciliations resides in the accounting system and checklist notes. MPS has implemented a system for documenting their review of bank records.

8. Ensure that all affected reports are updated when a financial document such as the general ledger is updated. For example, if a cash entry is changed in the general ledger after the bank reconciliation is completed, then the bank reconciliation must be updated so that month-end cash matches.

Response: This is standard practice for the EdTec accounting department; issues encountered in July and August 2016 relate to transition from MPS internal systems to EdTec's system and changes to prior year balances and outstanding items after July/August bank recs completed.

9. Only post items to the cash account if the amount will be reflected on the bank statement.

Response: EdTec agrees and as standard practice only posts cash items to cash accounts per bank statements. There were a few transactions in June that were posted erroneously and later reversed. This appeared to be an isolated occurrence.

10. Post journals for manual checks only once, debit the appropriate expense object code and credit cash.

Response: This is standard practice for EdTec, unless the cash transaction has been recorded as a temporary transaction, awaiting supporting documentation. As MPS has improved their practice of submitting complete supporting documentation for debit transactions and cashier's checks, the EdTec process of recording such transactions has been more accurate.

Journal Entries/Financial Statements - Recommendations

1. Provide verbiage in the Name column of the general ledger for revenues and journal entries, and include the description and detail for these transactions.

Response: Name column of the general ledger is reserved for Vendor specific names only. Journal entries and cash receipts have two separate fields to be used for identifying the details of a transaction: Description and Memo.

2. Make payments to the charter management organization (home office) using the accounts payable process with appropriate approvals, rather than through a cash transfer between the applicable bank accounts.

Response: MPS transfers funds between agencies based on board approved CMO fee calculations. All transfers are board approved and supported by two authorized signatories.

3. Process transactions with the appropriate account code rather than as uncategorized.

Response: Account codes are used only upon receipt of appropriate supporting documentation and proper coding from MPS. EdTec continues to use 7999 and 8999 to record cash transactions in a timely manner as we await supporting documentation. These accounts are monitored and cleared regularly.

4. Train staff to properly account for and post transactions, including those for loans between charter schools and audit adjustments, to ensure beginning and ending balances are accurate on the general ledger and financial statements.

Response: This is standard practice for the EdTec accounting department; issue encountered in July relate to transition from internal systems to EdTec's system and awaiting supporting documentation to properly record transactions.

5. Ensure interschool loans are accounted for accurately and timely at each school, and for each month there was activity. This will ensure loans between Magnolia schools are balanced.

Response: EdTec has implemented a details analysis and review process for intercompany transactions, and accounts are reconciled each month. A master intercompany balances workbook is completed and shared with MPS CFO for review at year-end.

6. Ensure that receipts posted to accounts receivable accounts clear the amounts originally set up for that receivable, and that the postings are accurate and timely. Post any differences between what was expected to be received and what was actually received to current year revenue.

Response: This is standard practice for EdTec. Prior year balances were not final when EdTec received trial balance information upon transition; all balances have

since been reconciled and cleared, and the standard EdTec practice of accruing and clearing AR is in place. Balance sheet accounts are reviewed and reconciled monthly.

7. Train staff to properly account for and post transactions such as the following:
 - a. Loans between charter schools
 - b. Audit adjustments
 - c. Set up and clearing of accounts receivables and liabilities
 - d. Obtaining necessary backup documents to post income and expenditures without using “uncategorized” account codes
 - e. Monthly review and verification of financial statements

Response: EdTec has a detailed month-end close process that is in place and includes the proper recording of transactions noted above and full review and verification of balances and amounts in financial reports. Issues identified in July and August were specific to their transitioning from in-house accounting to EdTec and prior year-end balances not being final or awaiting supporting documentation.

8. Provide necessary oversight to ensure monthly postings are appropriate and complete, transactions are posted to the correct object codes, and all financial statements match the general ledger.

Response: Journal entries are submitted to MPS CFO for review each month; EdTec has a comprehensive review process in place to ensure accuracy of financial reports, consistent with the general ledger

9. Scan or file all backup documentation timely to prevent misplaced support items.

Response: EdTec operates in a paperless environment, where all supporting documentation is maintained in electronic files and stored on a secured, shared drive. MPS files documentation in CoolSIS or NAS, depending on the type of document.

10. Prepare monthly budget to actual data by object for ongoing review and analysis.

Response: This is standard practice for EdTec. We prepare budget vs. actuals by individual account code and resource code on a monthly basis, for each site. Detailed analytical procedures are conducted each month as part of the month-end close process. Major revenue and expense codes (payroll, rents, etc.) undergo detailed drill-down analysis (by pivot, filter and review of source docs) to identify variances and drive further research and inquiry where needed.

11. Ensure that signed documents include the printed name of the signor and date signed.

Response: MPS is now requiring signature over printed name with title and date.

12. Include a spreadsheet or similar backup documentation for journal entries, which shows all accounts affected, the amounts debited and credited to each account, and the reason for the entry.

Response: NetSuite contains attachments to support journal entries.

13. Research and clear outstanding receivables and payables in a timely manner, and ensure there are no negative amounts in these object codes.

Response: EdTec conducts balance sheet review and reconciliation on a monthly basis.

14. Update budgets throughout the fiscal year as factors such as changes in average daily attendance, grant funding, and staffing are known.

Response: EdTec updates forecasts each month as new information becomes available. Forecasts are compared to board-approved budgets and actuals each month, and recommendations are made to approve revised budgets in Fall (after 20-day reports available) and sometimes again in Spring, if necessary. MPS board is responsible for acting on recommendations to revise budgets in a timely manner, so that financial statement comparisons are meaningful each month throughout the year.