

September 17, 2018

David Hussey, Executive Director  
El Camino Real Charter High School  
5440 Valley Circle Boulevard  
Woodland Hills, CA 91367

Dear Executive Director Hussey,

In July 2017 the El Camino Real Charter High School and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to review the charter school's operations and procedures. Specifically, the study agreement states that FCMAT will complete the following:

1. Conduct on-site visits to meet with staff and review internal controls, processes and procedures for the business office. The on-site assistance will include, but not be limited to providing recommendations for improvement, if any, in the following areas:
  - Purchasing, including travel and conference
  - Accounts payable
  - Accounts receivable
  - Payroll
  - Student store

The FCMAT study team visited the charter high school, conducted interviews, and reviewed documentation on August 3 and 4, 2017.

A management letter containing FCMAT's findings and recommendations was sent to the charter school on October 2, 2017. FCMAT returned to the charter school on January 5, 2018 to review progress in implementing the recommendations and to provide on-site assistance. A second management letter was sent to the charter school on February 14, 2018.

FCMAT returned again to the charter school on June 29, 2018 to review progress in implementing the recommendations and to provide on-site assistance. This letter contains updates resulting from this follow-up field-work. Updates and follow-up information is indicated by the type style used in this paragraph, and information from this latest follow-up is indicated by "(July 2018)."

**FCMAT**

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## Significant New Events (July 2018)

Several significant events have occurred since FCMAT's last visit to El Camino Real Charter High School in January 2018. First and foremost of these was the Annual Performance Based Oversight Visit Report conducted by the Los Angeles Unified School District Charter School Division. In that report, the charter school received ratings of 3 (i.e., proficient) in each of the major review categories, which include governance, student achievement and educational performance, organizational management, programs and operations, and fiscal operations.

The charter school also reached a settlement and entered into a multiyear agreement with the United Teachers of Los Angeles (UTLA). Significant elements of the agreement include:

- Modest pay increases over a three-year period, ranging from a total of 3.75% to 4.25%, with no increase greater than 1.5% in a single year.
- Health and welfare benefits will be maintained at fiscal year 2018-19 levels.
- Up to 12 weeks of accrued sick leave may be used as paid leave for child care within the first year of a child's birth or adoption.
- Effective July 1, 2018, increased eligibility requirements became effective for new hires to qualify for post-retirement benefits.

In addition, the charter school's governing board adopted revised fiscal policies and procedures at its July 9, 2018 board meeting.

## Internal Controls

Internal controls are the processes that create checks and balances to safeguard assets. When a system of internal controls is set up using segregation of duties, no one person has complete oversight of or handles a transaction from initiation to reconciliation. This is a benefit because it can help detect errors, omissions or duplications. The effectiveness of internal controls is affected by the availability and quality of information used to monitor the organization's operations, the effects of the social environment on employees, and the policies and procedures that guide the organization. Internal controls provide an opportunity to monitor and measure an organization's assets and resources, and to help protect those assets from misappropriation, abuse, or fraud.

Internal controls should be set up in all educational agencies to accomplish the following:

1. Help identify and correct inefficient processes.
2. Comply with state and federal regulations.
3. Prevent management from overriding internal controls.
4. Assure the governing board that the internal control system is sound.
5. Educate employees on the use of and expectations regarding proper internal controls.

Effective internal controls are designed to ensure the following:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.

3. Compliance with applicable laws and regulations.

Internal controls can provide only reasonable assurance, not absolute assurance, that an organization will achieve its goals and objectives.

Ineffective internal controls may include, but are not limited to, the following:

1. Failure to segregate duties and responsibilities of authorization.
2. Unrestricted access to assets or sensitive data (e.g., cash, fixed assets, personnel records).
3. Failure to record transactions, resulting in lack of accountability.
4. Failure to reconcile assets with the appropriate records.
5. Unauthorized transactions.
6. Unimplemented controls because of unqualified personnel.
7. Little or no supervision, which may result in collusion among employees.

Internal controls have five components that work together:

- Control environment
- Risk assessment
- Control activities
- Monitoring activities
- Information and communication

The methods implemented to achieve adequate internal controls must be scaled to accommodate an organization's staffing, structure, programs and resources. The objectives of the five components are described below along with recommendations for implementation.

## **Control Environment**

The control environment consists of the structures, processes and standards established to help carry out the internal control process. It includes management and governance functions, and the tone, awareness and actions of those in upper-level management positions. Expectations are set here, and values are inculcated throughout an organization. The strength of the internal control environment is influenced by many factors including organizational values and history, management philosophy and operating style, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

## **Risk Assessment**

Risk assessment identifies and analyzes the risk factors that imperil an organization's ability to achieve its objective of accurate financial information. These may include errors, violation of policy, fraud, or noncompliance. Risk assessment is an ongoing process of identification and analysis.

## **Control Activities**

Control activities are the policies and procedures that help ensure that management's directives are carried out in an organization. Some common control activities include performance reviews, authorization, physical controls, and segregation of duties.

## **Monitoring Activities**

Monitoring involves ongoing evaluation of the effectiveness of controls and making adjustments or corrections when necessary.

## **Information and Communication**

Managers can obtain or create and use relevant information from internal and external sources to support internal control functions. Communication is continually obtaining, providing and sharing information. Internal communications should be disseminated throughout an organization through the chain of command, and should flow up, down, and across all levels. In this way, management can communicate the importance of internal controls. Internal communication can be carried out through group meetings, face-to-face dialogue, or using technology such as intranet sites or emails. External communication allows relevant external information to be brought into an organization and provides information to external parties in response to requests or requirements.

## **Internal Controls at El Camino Real Charter High School**

Most people in an organization are responsible for internal controls in some capacity because almost everyone either produces information used by the internal control system or is responsible for taking actions to implement internal controls. School administrators, governing board members, and auditors have additional responsibility to ensure that an organization's internal controls are effective.

As the charter school's leader, the executive director sets the organizational tone, influencing all activities and decisions, developing the internal control mindset of its employees.

The chief business official is responsible for integrating all five internal control components into the charter school's administrative system. The administrative team provides leadership and direction to managers as well as feedback on their internal control decisions. Managers are responsible for assigning specific internal control policies and procedures, control activities, and monitoring to appropriate personnel.

The governing board works as a group to provide governance, guidance and oversight. Individual board members can improve the control environment when they are inquisitive, free from bias, informed, and conduct themselves in an ethical manner.

Independent auditors determine whether the internal controls used are properly designed and implemented and whether they are working effectively. They also make recommendations for improvement; however, this should never be the only method of monitoring internal controls.

During fieldwork, FCMAT noted the need for improvement in the following areas related to internal controls:

### **Staff Cross-training**

The charter school lacks cross-training in its business office. More than one employee should be able to perform each job so the school can have adequate coverage when an employee is absent.

**Follow-up:** The charter school is implementing a new financial system, NetSuite. At the time of follow-up fieldwork, the implementation team included only the chief business officer and the fiscal specialist. As NetSuite is implemented, the charter school will need to ensure that business office staff are cross-trained on the different functions in the financial system.

**Follow-up** (July 2018): The charter school has started to cross-train staff, but more cross-training is needed. This is essential because the charter school is implementing a new integrated financial system.

## **Segregation of Duties**

The charter school lacks adequate internal accounting procedures. FCMAT observed cash being counted by one employee rather than by two as is necessary to ensure checks and balances. No employee should have custody of an asset such as cash and maintain the records for the transactions, and no one employee should be responsible for a financial process or transaction from start to finish.

**Follow-up:** The charter school has developed and implemented an extensive segregation of duties matrix that outlines the responsibilities of business office staff and that should ensure no one employee has custody of an asset or is responsible for a financial process from beginning to end.

The business department processes purchase orders only if proper procedures are followed. The business office staff communicate with the requester when information is missing. When procedures are not followed, the business department notifies the charter school's chief compliance officer in writing.

**Follow-up** (July 2018): There have been no changes to these practices.

## **Professional Development**

The Business Services Department staff receive almost no outside professional development, and employees who do receive professional development indicate that the training is not directly applicable to their jobs. To improve their skills and build the organization's capacity, these employees need ongoing training that is applicable to their job duties.

**Follow-up:** The charter school was sending some of its business office employees to training during FCMAT's visit. Professional development opportunities need to be made available to all business office staff, and the training must be directly applicable to their jobs.

**Follow-up** (July 2018): The charter school has made plans for future training. The charter school began training in June 2018 for the implementation of the financial system, which is being developed in-house. There are plans for training on the California State Teachers Retirement System (STRS) and the California Public Employees Retirement System (PERS), opportunities for a variety of workshops at the Los Angeles County Office of Education, and Fred Pryor seminars. Although dates have not been scheduled, the charter school continues to monitor available professional development opportunities for staff.

## **Organizational Chart**

The charter school lacks an up-to-date organizational chart. An organizational chart is important because it shows the structure and the relationship of all positions, and this structure establishes the framework and the delegation of specific responsibilities and duties for all staff members. This document is also needed to identify the chain of command and the responsibility for functional areas for each staff member.

**Follow-up:** The charter school has an up-to-date organizational chart that shows its organizational structure and clearly identifies the chain of command among the administration and business office staff.

**Follow-up** (July 2018): There have been no changes to these practices.

## Recommendations

*The charter school should:*

1. Provide professional development opportunities outside of the school to expose business office staff to best practices relevant to their job duties.

Status of implementation: Partially Implemented

2. Ensure that no one employee has custody of an asset, such as cash, and maintains the records for the transactions exclusively. Implement procedures that discourage or prevent one employee from maintaining responsibility for a financial process from start to finish.

Status of implementation: Implemented

3. Implement cross-training among staff to ensure that more than one employee can perform each job and thus enable the organization to maintain adequate coverage during employee absences.

Status of implementation: Partially Implemented

4. Create an organizational chart that identifies all charter school office positions and the chain of command.

Status of implementation: Implemented

5. Identify ways to hold individuals accountable for performing internal control responsibilities throughout the organization.

Status of implementation: Partially Implemented

## Accounts Payable and Purchasing

The charter school uses the ERP financial system to process purchase requisitions; this is a system developed and implemented in-house by the charter high school's technology staff. The purchase requisition system is mostly automated and includes an approval path for each requisition. The initiator of a purchase requisition, such as a teacher, enters the vendor, purchase amount and account code into the ERP system, then it is transmitted electronically to the department chairperson, who decides whether the requisition should be processed. If the requisition is processed, it is transmitted electronically to the accounts payable specialist, who ensures that the requisition has been coded correctly. If the requisition has been coded correctly, the accounts payable specialist forwards the requisition electronically to the principal in charge of administrative approvals, who creates a purchase order on the ERP system using the information in the purchase requisition. Once a purchase order has been created, the purchasing clerk opens the purchase

order on the ERP system and sends the purchase order to the vendor, and a copy to accounting through the ERP system, and a hard copy to receiving. The transmission of the hard copy to receiving is the only manual process in an otherwise automated system.

The charter school uses a similar process when making purchases through online vendors. A purchase order in excess of \$50,000 requires advance approval by the board and as a result cannot always be expedited administratively.

The charter school has a contract with Print Spot, a private company, which has been in effect since 2016. In addition to performing print and copy services, a Print Spot employee acts as a de facto receiving agent for the charter school. The Print Spot employee confirms the receipt, and sometimes quantity, of items generated through purchase orders. The Print Spot employee receives a hard copy list of items and sorts them into four files: 1) purchase order items not yet received; 2) purchase order items received and quantified; 3) bills of lading or packing slips; and 4) a hold file for incomplete orders.

In most instances, a completed purchase order will be signed by the Print Spot employee as final, then delivered to a classroom. The initiator of the purchase requisition (e.g., the classroom teacher) is not given the opportunity to review the order to ensure the order is complete and the items are without defect. Hard copies of signed purchase orders are delivered to the business office, where they are matched with corresponding invoices, then flagged as OK to pay by the executive director in the ERP financial system. It would be beneficial to revise this process to include the initiator of the order in the receiving process to ensure orders are satisfactory and complete.

**Follow-up:** The charter high school has made no changes to these procedures:

The Print Spot employee is provided to the charter school as part of a printing services agreement executed December 15, 2015. The agreement states that Print Spot is to provide printing services to the charter school and will make available for exclusive use one of its employees. The Print Spot employee is to provide copy services on demand using the charter school's supplies and equipment, ship and receive packages, and collect textbooks. The agreement also states that the Print Spot employee shall not be deemed an employee of the charter school.

**Follow-up:** The Print Spot contract will expire soon, and the executive director is evaluating whether there are other more cost-effective ways to fulfill the charter high school's copying and receiving functions.

**Follow-up** (July 2018): The charter school did not renew its contract with Print Spot. Duplicating and receiving duties are now performed by a charter school employee.

## **Best Practices**

Public agencies, including charter schools, use purchase orders to initiate purchases from vendors. Purchase orders are used to complete an approval process prior to purchase, communicate the order to the vendor, and encumber the amount of the purchase order against a budget. Purchase orders can also be used to track the receipt of goods and services and provide information to accounts payable for auditing purposes.

When paying invoices, accounts payable should ensure that each vendor invoice references a charter school purchase order number. If no purchase order is indicated, accounts payable may have to search the purchase order database using vendor, items purchased, and ship-to locations to find the purchase order. Once the purchase order is located, accounts payable should verify that the items on the invoice match the items on the purchase order. When matching invoices to purchase orders, the charter school should be able to answer yes to the following questions:

- Does the vendor information on the invoice match the vendor information on the purchase order?
- Was the purchase order approved and issued before the invoice was received?
- Are the items invoiced the same as the items ordered?
- If paying on an open purchase order, do the items match the general category of items authorized?
- Do the amounts invoiced (by total or by item) match the purchase order?
- Does the invoice have enough detail to verify that the services were performed as contracted? An invoice for services, especially a progress invoice, should include details such as dates of service, description of services, and hours of service.

Accounts payable should also verify that invoices match the receiving document, such as a packing slip or bill of lading. The receiving of items can be verified by a receiving clerk or warehouse employee. However, the receiving of contracted services should require verification by a person with knowledge of the services being performed. The charter school should be able to answer in the affirmative or accurately the following questions regarding verifying invoices to receiving documents:

- Does the invoice match the items received?
- When were the items received? This will make a difference at year end when determining the fiscal year.
- Is the order complete and can the purchase order be finalized?

Accounts payable should also audit invoices to ensure the following:

- The purchase order, receiving document and invoice all match.
- The invoice is not a duplicate. Use exact vendor invoice number, amount and date to verify.
- The total invoice amount is correct.
- Shipping and handling have been applied correctly per the purchase order.
- Sales tax and/or use tax rate is correct for the delivery location.
- All charges are current, and the invoice does not include an amount brought forward.
- Purchase order encumbrances are sufficient to pay the current invoice or are within the charter school's variance policy.
- The invoice pricing matches any quote or bid pertaining to the purchase order.
- The account code is correct per the charter school's chart of accounts, department responsibility, and state account code requirements.
- The fiscal year for processing is correct.

Sometimes the purchase order, receiving document and invoice will not all match. This can happen in the case of direct payments for which no purchase order was issued, such as a board-authorized pay voucher; when prepayments are made for services not yet received; and when purchases are made online using an authorized credit card.



## Recommendations

*The charter school should:*

1. Have the business office work with the information technology department to enable the ERP system to allow users to transmit a copy of a purchase order electronically to receiving.

Status of implementation: Not Implemented

2. Review and adjust the approval path for purchase orders to include the purchase order initiator in the receiving process to ensure that all goods and services received are satisfactory and complete.

Status of implementation: Not Implemented

## Travel and Conferences

The charter school has developed a step-by-step online tutorial to help staff register for conferences and obtain reimbursement for legitimate travel and conference expenses. The tutorial calculates mileage reimbursement at the Internal Revenue Service (IRS) reimbursable rate, and meal reimbursements using the per diem amounts specified by the General Services Administration (GSA) for the continental United States (CONUS). The tutorial also enables a user to identify whether a substitute will be needed when the employee is absent.

The IRS sets a mileage rate annually based on the total cost to operate a vehicle (gas, maintenance, and insurance). This rate is typically issued in January for the entire calendar year. The charter school may use the IRS rate or set a lower rate. If the charter school chooses to pay more than the IRS mileage rate, the excess amount is considered a taxable wage and must be processed through payroll.

The GSA CONUS per diem rates are the maximum amounts that federal employees are reimbursed for expenses incurred while on official travel. Lodging reimbursement rates are prescribed by the charter school's fiscal policies.

The charter school's online tutorial functions as a how-to guide to register for a conference; however, it falls short of functioning as a guideline or administrative regulation. It would benefit the charter school to expand the tutorial to include information about which expenses are not allowed and to indicate what the consequences are for employees if the guidelines are not followed. If this is done, renaming the tutorial from "Conference Attendance Request" to "Conference Attendance Request Process and Guidelines" or a substantially similar title would help reflect the change. These changes would strengthen the procedural guidance for travel and conference reimbursement.

**Follow-up:** The charter school has made no changes to this tutorial.

For example, the tutorial could include language such as the following:

### **Reimbursable Expenses**

Only expenses incurred on behalf of the charter school will be reimbursed, and only upon presentation of appropriate receipts. Charges for personal goods, services, entertainment and

travel not related to the charter school are not allowed. Other examples of unallowable expenditures are:

- Personal long-distance phone calls
- Laundry
- Room service fees
- Alcohol and tobacco
- Auto rental for personal use
- In-room movies
- Nonitemized receipts (excluding per diem meals)
- Copies of receipts (excluding per diem meals)
- Any costs for nonemployees, such as spouses or children

Similarly, effective guidelines will identify the consequences to staff if they are not followed. The following is an example:

### **Noncompliance**

If there is any violation of the “Conference Attendance Request Process and Guidelines,” including failure to obtain authorization for travel prior to travel date, no reimbursement of expenses will be permitted. In addition, submittal of the “HR Expenses” document, receipts and maps more than \_\_\_ days after the completion of travel will be cause for denial of reimbursement.

**Update:** The charter school reported that when the travel and conference guidelines in the tutorial were not followed the chief compliance officer reprimanded staff.

Employees are entitled to claim mileage for business travel for which they use their personal vehicle. Accounts payable is typically responsible for ensuring that an organization’s procedures are being followed and claims are paid. Like all organizations, the charter school must comply with IRS regulations regarding nontaxable benefits. Any amounts paid in excess of IRS regulations must be added to an employee’s W-2, and payroll taxes must be applied.

### **Update — Marijuana**

On November 8, 2016, California voters approved Proposition 64, the California Marijuana Legalization Initiative. The passage of Proposition 64 legalized the cultivation, manufacture and sale of marijuana for recreational use in California effective January 1, 2018. However, the cultivation, manufacture, sale, and use of marijuana remain illegal under federal law. In addition, Proposition 64 prohibits the following:

1. Selling, giving, or advertising marijuana or marijuana products to individuals under the age of 21.
2. Smoking marijuana or marijuana products within 1,000 feet of a school, day care center, or youth center while children are present at such location, except in or upon the grounds of a private residence, and only if the smoking is not detectable by others on the grounds of the school, day care center, or youth center while children are present.

3. Possession of marijuana on the grounds of a school, day care center, or youth center while children are present.
4. Businesses selling marijuana within 600 feet of a school, day care center, or youth center.

When the charter high school updates its travel and conference procedures, it will need to add marijuana to the list of unallowable expenditures for reimbursement.

**Update** (July 2018): The charter school's governing board recently approved updated fiscal policies and procedures that clearly state, "Charter School, state, and federal funds may never be used for the purchase of marijuana, or marijuana-related products or paraphernalia."

## Commuting

The IRS has specific criteria for determining what is considered commuting. Any mileage reimbursement for commuting is considered a taxable wage and must be added to an employee's W-2 and is subject to payroll taxes. Commuting is travel between home and work. Return trips to work are also considered commuting. For example, if a teacher returns to school for an evening event, the mileage is considered commuting. If mileage is paid for second trips to an employee's primary work location, it is considered a wage and must be added to the employee's W-2 and is subject to payroll taxes.

Mileage claims should include the following:

- Name, address, phone, title, and employee number (if applicable) of the claimant
- Date of the travel
- Destination and starting locations
- Business purpose of the travel
- Claimant signature and certification
- Lines for approval signatures.
- Account numbers to be charged

Any mileage claims that are not substantiated with the above information, or that are for commuting, must be considered a wage, be processed through payroll, and be taxed accordingly.

## Recommendations

*The charter school should:*

1. Expand its online tutorial to include information on which expenses are not allowed and to indicate what the consequences are to employees if the guidelines are not followed.

Status of implementation (July 2018): Implemented

2. Rename the "Conference Attendance Request" online tutorial "Conference Attendance Request Process and Guidelines" or a substantially similar title.

Status of implementation: Not Implemented

## Follow-Up Recommendation

*The charter school should:*

1. Update travel and conference procedures to add marijuana the list of unallowable reimbursable expenditures.

## Accounts Receivable

School agencies throughout California, including charter schools, receive millions of dollars in payments and accounts receivable daily. Using proper internal controls ensures that cash receipts and accounts receivable are accounted for accurately in the charter school's financial system. Cash collections and accounts receivable operations are among the most vulnerable to error or abuse if strong internal controls are not in place.

Given the nature of a high school and its annual activities, including fundraising, gate receipts, student store and others, a systemic organizationwide procedure for receiving cash and checks is essential. Proper policies, procedures and internal controls are best made with an organization's personnel in mind because they help protect not only an organization's assets from loss, but also its personnel from false accusations of fraud or theft.

The charter school has a fiscal policies and procedures document that identifies guidelines, including for internal controls. The document provides a sound structure and includes elements related to internal controls. Because the charter school has recently seen changes in administration and support staff in the business office and in its executive leadership, a review of the document may be warranted. The document is available on the charter school's website, but staff may not know about it.

**Follow-up:** The administrative staff have review of this document on the to-do list, but have not yet had an opportunity to complete an annual review as a team. Many business practices are changing, so it is prudent to wait until these practices are finalized before updating the document.

**Follow-up** (July 2018): The administrative staff have placed a high priority on implementing the new financial system, called NetSuite, with plans for it to go live on July 1, 2018, and review of the fiscal policies and procedures document remains on the to-do list. Many business practices are changing, so it is prudent to wait until these practices are finalized before updating the document.

During FCMAT's interviews with employees, it was clear that knowledge of accounts receivable and receiving of cash, checks and credit cards rested primarily with three employees. It is best practice to ensure that all personnel responsible for receiving cash, checks and credit cards and responsible for invoicing receive ongoing training to reduce the risk of error.

**Follow-up:** The charter high school is reviewing its options for training through the California Charter Schools Association and Fred Pryor Seminars. The charter high school will need to continue to identify ongoing training opportunities for staff.

**Follow-up** (July 2018): The charter school has made plans for future training. The charter high school began training in June 2018 for implementation of the financial system, which is in-house. There are plans for training on STRS and PERS, opportunities for a variety of workshops at the Los Angeles County Office of Education, and Fred Pryor seminars. Although dates have not been scheduled, the charter school continues to monitor available professional development opportunities for staff.

The charter school has a complete handbook of operating procedures for the Business Services Department. However, the charter school provides individual emails when there is a question regarding the ERP. As a result, the Business Services Department handles many inquiries from school and department staff members on how to accomplish particular tasks. This both adds to the department's workload and makes it difficult to keep employees at the school and in other departments properly trained, especially when there is staff turnover. This results in errors and inefficiencies.

**Follow-up:** The charter high school researched other options available for a financial system and recently decided to purchase a financial system called NetSuite, with an implementation date of July 1, 2018. NetSuite is used by EdTec, the charter high school's back-office service provider. The charter high school will implement an updated version with a customized account code structure that will allow it to obtain data in a manner that gives administrators the flexibility to analyze financial data in multiple ways. Initially, NetSuite will provide a financial module; other modules will be added later, resulting in a fully-integrated financial system. The complete system will include accounts payable (A/P), accounts receivable (A/R), position control, payroll, general ledger, inventory, and other functions.

The charter high school and NetSuite held their first conference call on January 4, 2018, so implementation of NetSuite is just beginning. Although the charter school's back office provider is using NetSuite, transitioning the financial information from EdTec will require a complete implementation. The account code structure used by the charter school will be completely different. The charter high school is interested in using the Standardized Account Code Structure (SACS) software from the California Department of Education in the future. The charter high school is currently using the SACS Alternative Form to meet the state requirements for filing reports; the filing is done by EdTec. The use of SACS software will provide efficiency for the charter high school staff to meet reporting requirements.

The NetSuite implementation team currently includes the chief business officer and the fiscal specialist. As the implementation timeline is finalized, it will be prudent to include business office staff to obtain input regarding the process and training of staff.

**Follow-up** (July 2018): The charter high school has updated its handbook of operating procedures for the Business Services Department and distributed it to all staff. The charter high school's goal is to eventually have a fully-integrated financial system. The complete system will include A/P, A/R, position control, payroll, general ledger, inventory, and other functions. There is no timeline for the additional modules to be implemented.

The charter school's policies require that all fundraisers conducted identify a coordinator for each event, which is considered a sound internal control measure. However, the charter school does not require written documentation of the event or of an individual's agreement to act as coordinator. The strength of internal controls often resides in such details.

Upon completion of an event, two people — the event coordinator and one of the accounting staff, or a volunteer, or the assistant principal — count the funds and document the count in writing. Requiring one of the individuals to be an employee of the charter school is good practice; best practice is to ensure that both individuals are employees whenever possible.

**Follow-up:** The charter school now has two employees at each football game. Immediately after the game the two employees are responsible for counting the money and completing the reconciliation. The money is placed in a safe until the next business day when Dunbar, the charter high school's armored transport contractor, picks up the money and delivers the deposit to the financial institution. Dance tickets are sold at the student store, and reconciliation is performed at the time of sale and at the end of the day. The athletic director is responsible for collecting tickets at other sports events. The same process with two people, pref-

erably employees, should be used for other sporting events at which money is collected. The charter school's changes to collection and reconciliation for football games and dance tickets are appropriate. It is critical for the protection of employees and safety of the charter school assets that collection, reconciliation and deposits be handled in the same manner at other sporting events.

**Follow-up** (July 2018): The charter high school has made no changes to these practices.

The office technician I and II positions each have access to cash in the vault, operate the point-of-sale system for purchase of products, receive cash, checks and credit card payments, generate a daily cash report, and prepare the daily deposit. This constitutes a lack of internal controls because each of these individuals collects, enters into the point-of-sale system, counts, prepares the deposit, and purchases the product. Thus, one person has access to multiple functions that would place the charter school's assets in jeopardy. In addition, this puts each of these individuals in a position in which they could be accused falsely of wrongdoing.

**Follow-up:** The staff have adjusted the process used for collecting funds at the student store. After each sale, there is a reconciliation of the transaction. Although this is a commendable and proactive practice, it is not optimally efficient and may slow other functions of the student store. FCMAT recommends that the reconciliation occur at the end of each day. In addition, access to multiple functions on the part of one individual continues to place the charter school's assets in jeopardy. A redistribution and/or reassignment of duties in the student store would strengthen internal controls related to the collection of money.

**Follow-up** (July 2018): The staff have adjusted the process used for collecting funds in the student store. The reconciliation is completed once a day, and a deposit report is completed daily. In addition, a second person verifies the cash and checks in drawer daily.

The procedure for making change for large bills has also been amended. Previously, the student store had received counterfeit money, so they are now checking bills and are not making change for bills larger than \$20.

The charter school's fiscal policies and procedures document requires the signatures of an accounting staff member and either the assistant principal or the executive director when funds are brought to the charter school office for processing. There is often a need to have someone on site to count cash, checks, and credit card funds received immediately. The executive director has a busy schedule and may not be readily available. In such cases, having an employee from the business office perform this function is an appropriate option.

**Follow-up:** The charter high school has made no changes to these practices.

**Follow-up** (July 2018): The charter high school now ensures that an accounting staff member, volunteer or assistant principal is present to help count funds received after fundraising events.

Teachers collect cash and checks daily and place them in an envelope in each classroom. The envelopes are picked up at noon by office staff. It would strengthen internal controls and help protect employees if the charter school provided a lockbox in each room for these envelopes and had the teacher include a tally of the amount of cash and checks collected in the envelope. Staff who pick up the envelopes containing the funds and tally sheets for them could continue to bring them to the student store, where a cash receipt is issued.

**Follow-up:** The charter high school has made no changes to these practices.

**Follow-up** (July 2018): The charter high school has made changes to these practices. All checks and cash go through the student store and are no longer handled in the classroom by teachers.

FCMAT observed two unlocked and open drawers with cash visible in the student store. It is best practice to always keep cash in a safe and secure location. Lockboxes for the student store could help secure these cash receipts.

**Follow-up:** The student store staff have improved procedures to ensure that cash and other assets in the student store are safe and secure at all times.

**Follow-up** (July 2018): The charter high school has made no changes to these practices. Cash and other assets in the student store continue to be safe and secure at all times

## Recommendations

*The charter school should:*

1. Establish an online NetSuite procedures manual and make it available to all staff to alleviate the workload in the Business Services Department.

Status of implementation (July 2018): Implemented

2. Provide professional development opportunities outside of the school to expose business office staff to ensure best practices. This could also include hiring an outside consultant to provide the training in-house.

Status of implementation: Partially Implemented

3. Ensure that no one employee has custody of an asset, such as cash, and maintains all records for the transactions. Ensure that no one employee handles a financial process from start to finish.

Status of implementation (July 2018): Implemented

4. Create a document for fundraisers that includes detailed procedures and forms, including a revenue potential form with estimated revenues and expenditures, and a form the event coordinator signs to indicate they are responsible for the event.

Status of implementation: Not Implemented

5. Ensure that the event coordinator and an accounting staff member, or a volunteer, or the assistant principal, are present after a fundraising event to count funds and document the count. Ensure that at least one of these individuals is an employee of the charter school

Status of implementation: Implemented

6. Review its fiscal policies and procedures document considering the recent changes in its administrative and support staff in the business office and in its executive leadership.

Status of implementation (July 2018): Implemented

7. Change its fiscal policies and procedures document to remove the requirement that the executive director be present to count cash received.

Status of implementation: Not Implemented

8. Provide lockboxes for each classroom to help secure cash and checks received daily.

Status of implementation (July 2018): No longer needed because all receiving of cash and checks is performed by the student store.

9. Provide lockboxes for the student store to help secure cash received.

Status of implementation: Implemented

## Follow-Up Recommendations

*The charter school should:*

1. Include business office staff (e.g., staff accountant and others) in the NetSuite implementation to ensure all staff can provide input and receive training through the process.

Status of Implementation (July 2018): Not Implemented.

2. Implement recommendation No. 6 above for all sporting events and other student events at which cash is collected.

Status of Implementation (July 2018): Implemented.

3. Establish a once-daily reconciliation process for sales in the student store.

Status of Implementation (July 2018): Implemented.

## Payroll

The largest operating expenditures for any school agency, including any charter school, are for salaries and benefits. Typically, these account for 80% to 85% of budgeted expenditures. Internal controls in this area are critical. There are many complexities involved in processing an accurate and timely payroll in accordance with state and federal laws, rules and regulations, and in procedures related to timekeeping.

Accurate processing of employees' salaries and wages involves complex computations that include various salary schedules, hourly rates, stipends, types of paid and unpaid leave, deductions for employee benefits, and substitute pay for instructional and noninstructional staff. In addition, the charter school is required to comply with the Fair Labor Standards Act in providing compensatory time and overtime pay. Because there are so many factors and variables, it is difficult to overstate the importance of internal controls over payroll and benefits.



It is best practice to limit access to payroll and accounting systems to staff members who have a valid need for it, and to ensure that human resources (HR) personnel do not have access to change the payroll system, and that payroll personnel do not have access to change the HR system. Additional layers of access control can be applied to specific personnel in the human resources office and the payroll office, according to their respective roles and responsibilities. For example, the following division of functions is industry best practice for maintaining strong internal controls:

- Human Resources
  - Processing employee status, compensation, and benefit records
  - Processing employee status change documents
  - Preparing and updating employee master files
- Payroll
  - Payroll calculations
  - Preparation of payroll disbursement records
  - Preparation of payroll disbursements

Some control functions fall outside of the scope of work of the payroll and HR departments and can be assigned to individuals outside of the two departments. For example, additional controls might include:

- Review and approval of time sheets (e.g., by applicable supervisors)
- Review and approval of payroll reconciliations prior to distribution of each payroll
- Distribution of check stubs to employees (if online access is not provided), or of paychecks to employees who do not choose direct deposit

**Follow-up:** The charter high school has made no changes to these practices.

**Follow-up** (July 2018): The charter high school has made some changes to these practices. A new position of HR assistant has been authorized and filled. The position is responsible for processing and orienting new employees and updating a Microsoft Excel worksheet used as the master file for personnel. All information for individual personnel is verified by the HR assistant, the fiscal specialist, and executive director before it is finalized in the master file. Creating and filling this new HR assistant position is a positive step that will benefit the charter high school by giving the organization stronger internal controls as a result of having a position outside of the fiscal staff handle this function. Internal controls can be strengthened through use of a fully-integrated financial system that includes an HR module. The charter high school is working toward this goal but does not have a timeline for completion.

The charter school's ERP financial system has been in development in-house for more than three years and includes collaboration between the Business Services and Technology departments. However, the system is not complete and thus the charter school lacks a fully integrated financial system with payroll and HR modules.

It appears business staff spend a significant amount of time helping develop the system in addition to their regular duties. It is not feasible to expect a full-time Business Services Department employee to establish the rules and guidelines for the modules to be added, and a project of this scope and size needs to be fully developed in concept before tasks to implement it take place. However, it is critical that the Business Services Department participate in the process to provide input if the charter school continues with this project. There are many financial software applications that the charter school could purchase

and use that are ready-made with all modules the school needs to function efficiently and effectively. The benefit of a fully-integrated system is that it will be integrated with the payroll system and will be self-reconciling.

**Follow-up:** The charter high school has recently chosen a financial system, NetSuite, which will be phased in over time. The first module implemented will be the finance module, with A/P, A/R and financial reporting. The charter high school is considering outsourcing its payroll because of the implementation timeline established to date.

**Follow-up** (July 2018): The charter high school has made no changes to these procedures.

Employees in the Business Services Department could perform all payroll functions in-house; however, the charter school is using both internal and external entities and personnel to complete this task. Specifically, the charter school's payroll process is managed by three separate entities. Charter school employees track absences using an electronic time clock, Stratus Time; employees sign in via a handprint. When an employee does not sign in or does not sign in at the designated time, the staff manually complete a spreadsheet and send it to an outside consultant, who enters the missing information into the Stratus Time application. In addition, staff prepare and send a manual spreadsheet twice a month to an outside consultant to calculate the payroll and prepare the data in a format to be scanned and sent to EdTec. EdTec prepares payroll and enters the transactions into their financial system, which is used to prepare financial reports for the charter school. Once the charter school approves the payroll report from EdTec, EdTec submits the payroll to Paychex for processing.

**Follow-up:** There has been no change to these functions and processes. However, workload has been added to the business office because certificated staff, who previously did not sign in through the electronic method, are now doing so, as are all administrators. The charter high school's rationale is that if staff are required to sign in, then administrators should be as well. The purpose of signing in to the time clock is to monitor and evaluate time worked. However, there need not be any requirement for administrators to do so because they are exempt positions, which are not subject to overtime rules. The efforts to include all staff is honorable but is adversely affecting the workload in the business office.

It may benefit the charter high school to hire an individual to call substitutes or purchase an application to help with this function. Certificated staff currently arrange their substitutes ahead of time when possible. The Business Services Department receives payroll forms showing that a substitute was used in the classroom. When a teacher is sick, they call in to the charter school and are instructed to call Kelly Services, which then calls the charter high school office to let them know if they have a substitute available. If Kelly Services does not have anyone available, school staff in the front office arrange for period-by-period coverage by staff at the school on that day.

The charter high school paid \$517,512 to Kelly Services in fiscal year 2016-17, so using in-house staff or an application to call substitutes should reduce costs. However, the only way to determine this with certainty is for the charter school to identify and compare the costs of the administrative fees charged by Kelly Services with the cost of obtaining and paying its own substitutes. At a minimum, the charter school should not require staff to make more than one call to the school when calling in sick.

Employees can receive their pay by direct deposit or a hard copy check. Checks are delivered to the charter school office and either picked up or mailed to the employee. Staff track and calculate employee leaves and accruals manually using an Excel spreadsheet. This is a long, arduous process that is performed twice a month and that results in approximately one to two errors each month. Errors are corrected before approval from the accounting and finance manager and submission to Paychex.

There are several systems available that can automate reporting of employee time and absences from the school or department to payroll. Implementing such a system would streamline the charter school's process and reduce errors. Such a system would allow data entry at the school or department, enabling staff to resolve errors or issues at that time and thus reducing the delays and effort required after the information reaches payroll. In addition, an automated system can perform calculations and verifications that payroll staff members now do manually.

**Follow-up:** The charter high school has made no changes to these procedures.

**Follow-up** (July 2018): The charter high school now uses StratusTime software to track and calculate employee leaves and accruals. There has also been a change to the outside payroll company used: the charter school is using Paylocity as of June 2018. When the charter school moved to Paylocity, not all of the staff received training. The charter school has a complex process for running payroll but has not provided training when it changed vendors. This can further complicate the completion of payroll and increase the risk of unintentional errors due to a lack of training.

The charter school is not using automated position control and does not have a fully-integrated financial system. Although position control is a budgeting tool, it can also be used to ensure that only authorized positions are filled and that appropriate personnel are receiving a payroll check. This is part of a system of strong internal controls. An effective position control system establishes checks and balances among personnel decisions, budgeted appropriations, and employee paychecks. It is not best practice to place the position control function entirely in the business department, but it is best practice to ensure that all personnel transactions related to a position are processed first through the business department. This helps ensure both the availability of a position and the adequacy of funding.

An effective position control system will:

- Have unique position control numbers for each position
- Contain only board-authorized positions
- Contain only valid, funded positions
- Provide timely and accurate information
- Be used as a forecasting tool
- Be fully integrated with the payroll, accounting, budget, and HR systems or modules
- Allow salary payments only to authorized positions

**Follow-up:** The charter high school has made no changes to these procedures.

**Follow-up** (July 2018): The charter high school has made no changes to these procedures.

## Recommendations

*The charter school should:*

1. Implement a fully-integrated financial system that includes employee leave, payroll, employee benefits, and position control modules so calculations are automatically tracked through the software.

Status of implementation: Not Implemented

2. Implement an employee benefits module in the fully-integrated financial system chosen so that additions, changes and terminations are managed through the software.

Status of implementation: Not Implemented

3. Evaluate and research options for implementing a single database to integrate all financial functions. Continue to pursue a solution that integrates position control, HR, and payroll data into one database, along with other financial functions. Give this initiative top priority.

Status of implementation: Partially Implemented

4. Ensure that for any system implemented, the Business Services Department maintains the budget side of position control records, the HR Department hires all employees into authorized positions only, the payroll staff pay only employees hired into authorized positions by HR, and neither the Business Services nor the HR departments can update or change the records of the other.

Status of implementation (July 2018): Implemented

## Follow-Up Recommendations

*The charter school should:*

1. Revise the process for certificated staff to call in for a substitute when they are sick so that staff have to make only one call, to the charter school. Analyze the potential benefits of handling substitute calling and assignments in-house rather than paying an administrative fee to an outside vendor, and of using an automated system to help call for substitutes.

Status of Implementation (July 2018): Not Implemented.

2. Eliminate the requirement for administrative staff to sign in and out electronically for time tracking.

Status of Implementation (July 2018): Implemented.

## Additional Findings

During fieldwork for this follow-up, FCMAT observed that staff members regularly duplicated and filed most financial transactions, resulting in large amounts of manually copied information. The charter high school is not required to keep permanent records of all transactions. It would benefit the charter high school to adopt and use the most recent edition of the California Association of School Business Officials' (CASBO's) *Records Retention Manual*. This would enable the charter school to determine what can be purged and what must be retained on site, either in paper or electronic format, and for how long.

The current office space is too small for business office staff, and staff work in different locations: some in the business office and others at the student store in another building. For the staff to function cohesively, it would be best for all to be at one location. The school's student support services center would be an ideal location.

During fieldwork, FCMAT also observed that the charter high school has no documented process for issuing and retrieving master and submaster keys. The charter high school needs a procedure that determines who should be issued keys, based on job duties or position, and a log that lists all the keys, what each unlocks and the individual to whom each is distributed.

An effective key checkout system will include procedures for employees to check out keys at the start of the school year and to return all keys at the end of the school year or when they leave the school's employment. It is best practice to have a management staff member responsible for the distribution and collection of keys.

**Update** (July 2018): The charter school has given one administrator responsibility for the distribution and collection of keys. The administrator has developed a key checkout system that includes procedures for employees to check out keys at the start of the school year and to return all keys at the end of the school year or when an employee leaves the school's employment.

## Follow-Up Recommendations

*The charter school should:*

1. Adopt and use the most recent edition of the California Association of School Business Officials' (CASBO's) *Records Retention Manual*, and use it to help determine what records can be purged and what must be retained on site and for how long.

Status of Implementation (July 21018): Not Implemented.

2. Consolidate the business office staff into one location, such as the student support services center location.

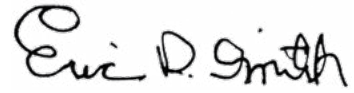
Status of Implementation (July 2018): Not Implemented.

3. Document and follow a standard process for issuing and retrieving master and submaster keys.

Status of Implementation (July 2018): Implemented.

FCMAT appreciates the opportunity to serve the El Camino Real Charter High School and extends thanks to all the staff for their cooperation and assistance during fieldwork.

Sincerely,

A handwritten signature in black ink that reads "Eric D. Smith". The signature is written in a cursive style with a large initial "E".

Eric D. Smith, MPA  
Intervention Specialist