# FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

April 7, 2020

Alex Lucero, Chief Executive Officer
REAL Journey Academies
1425 W. Foothill Blvd., #100
Upland, CA 91786

Dear Chief Executive Officer Lucero:

In December 2019, REAL Journey Academies (charter group) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide on-site technical assistance to the charter group. The agreement stated that FCMAT would perform the following:

1. Provide on-site technical assistance to review the charter group's business office processes and procedures in accounts receivable, purchasing and accounts payable, and make recommendations for efficiencies, if any.

FCMAT visited the charter group's central office on February 12 and 13, 2020, interviewed several school site and business office staff members and an ICON (back office provider) representative, reviewed documents provided by the charter group, and conducted an exit meeting.

The purpose of this letter is to confirm the observations and recommendations FCMAT discussed with the REAL Journey Academies' chief executive officer and chief financial officer in the exit meeting at the conclusion of FCMAT's on-site technical support services.

There has been significant turnover in the charter group's business office in the last two years. The chief financial officer was promoted to this position in July 2018, and the accounting assistant was hired in October 2019. Interviews with staff and documents reviewed by FCMAT indicated that training is needed for business office staff for some functions. The charter group should consider using resources such as the California School Accounting Manual (https://www.cde.ca.gov/fg/ac/sa/documents/csam2019complete.pdf), FCMAT's California Charter School Accounting and Best Practices Manual (https://www.fcmat.org/other-manuals), California Association of School Business Officials, and California Charter Schools Association to provide training in areas such as account coding, purchasing, and accounts payable as well as job alike training.

The charter group began using its back office provider's financial software system, Limelite, in July 2019, and staff indicated in interviews that some features of the system remain in development. Documents reviewed by FCMAT and interviews with staff indicated the system:

- Does not provide a budget report by account line with columns for year-to-date actuals and encumbrances.
- Does not include the vendor name or check date on check stubs.
- Does not appear to use invoice dates on aging reports.

- Requires manual processes, including manual input of both the debit and credit entries for accounts payable transactions.
- Does not include an electronic process for purchase requisitions and purchase orders, and does not encumber these transactions.
- Does not include a user manual.

To properly monitor its budget and accounting transactions and to reduce the possibility for errors, the charter group should work with its back office provider to determine if these issues can be rectified.

Business office staff were uncertain about how some transactions — for example, deposits — are entered in Limelite by the back office provider, and it is unclear whether balance sheet accounts are reconciled and cleared in a timely manner. To gain a complete understanding of the financial system's features and to ensure clarity regarding functions performed by the back office provider, the chief financial officer should meet with back office provider staff and review all processes from transaction initiation to completion.

Interviews indicated that business office staff use Excel spreadsheets to track some payments. However, it is more efficient to use unique object codes in the account code string to track payments (e.g., for utility bills) using the financial software system.

The back office provider reconciles the charter group's bank statements. Because charter group staff are more familiar with the reason for each bank transaction, the charter group should consider completing bank reconciliations in-house so that any irregularities can be identified and resolved quickly.

Internal control systems are the foundation of sound financial management and allow local educational agencies (LEAs) to fulfill their educational mission while helping ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect LEAs from material weaknesses, serious errors and fraud. To help strengthen internal controls and operating efficiencies, the charter group should implement various changes as indicated in the exit meeting and summarized in this letter.

Interviews with school site staff indicated that the accounts receivable process as described is reasonable; however, sites are required to make deposits only every two weeks. The charter group should consider requiring bank deposits to be made at least weekly. As a best practice, business office staff should routinely audit accounts receivable processes at each site to ensure established procedures are followed.

The accounts receivable process described in interviews with central office staff did not include specific procedures for holding checks that cannot be deposited the day they are received or for verifying that electronically deposited checks have been credited to the charter group's bank account before they are destroyed. The charter group should develop a written procedure for these functions to ensure proper internal controls are implemented.

FCMAT's on-site review of sample accounts payable transactions found one or more of the following exceptions in each payment packet reviewed:

- No purchase order.
- No signed contract.
- No receiver document or signed approval for payment.
- Invoice or receipt was not stamped "Paid" with the payment date.
- Documents provided for a payment to United Healthcare did not indicate whether the invoice had been reconciled with payroll, and it was unclear whether the payment was for the current or prior month.

- Invoice not paid timely.

The charter group should implement procedures to ensure all transactions include a fully executed purchase order, a signed contract if applicable, and a receiver document or signature indicating that items have been received or services completed. To avoid duplicate payments, all invoices and receipts should be stamped “Paid” and should include the date of payment. All payments made to vendors for employee health and welfare premiums should be reconciled with the monthly payroll to ensure premiums are paid for applicable employees only. In addition, each payment should clearly indicate whether it is for the current or previous balance.

Interviews with staff indicated that the Riverside County Office of Education, the authorizer of one of the charter group’s schools, requires that funds for the school be held in the county treasury rather than forwarded to REAL Journey Academies. Staff indicated that this process has caused some cash flow challenges, requires a significant amount of staff time to determine which items can be paid, and has resulted in some late payments to vendors. The charter group should continue to work with the county office to implement a process that provides for the timely payment of vendors. The charter group should also complete a cost benefit analysis to determine if using its line of credit would be more cost effective than paying late fees to vendors.

The accounting assistant processes invoices for payment, prints the checks, and receives the signed checks back to prepare them for mailing to vendors. To strengthen internal controls, the employee assigned the duties for check preparation should not also be assigned to distribute them.

The charter group provides credit cards to its school principals and central office administrators. FCMAT’s on-site review of sample credit card statements found that one Credit Card Cover Sheet form did not include an account code for each expense, two No Receipt forms did not include signatures, one receipt was not itemized, receipts from some vendors appeared to apply transaction fees and taxes inconsistently, and there were numerous late fees.

To provide for proper financial reporting and internal controls, the applicable account code should be applied to each credit card expenditure, the No Receipt form should include a declaration statement affirming that the information on the form is true and correct, and the credit card holder and their supervisor should be required to sign the form if a receipt is lost or cannot be provided. To reduce the possibility of duplicate payments and ensure only allowable expenses are paid from charter school funds, original, itemized receipts should be required for all expenditures, including those made with credit cards. The charter group should ensure that credit card receipts and supporting documents are reviewed thoroughly and that any discrepancies are resolved prior to payment. In addition, the charter group should develop a user agreement that states the allowed and prohibited uses of an employer-provided credit card and ensure that each employee signs it when they are issued a card.

FCMAT’s review of the documents provided found no published limits for conference and travel expenses such as those for meals, lodging, mileage, and tips. The sample accounts payable documents FCMAT reviewed included an expense reimbursement request form submitted for payment that did not indicate the purpose and type of expense. In addition, the attached receipts included mathematical errors and what appeared to be an excessive tip. Best practice is to adopt, communicate to employees, and implement expense limits for all conference and travel costs.

REAL Journey Academies has developed a Fiscal Policies & Procedures manual, a General Accounting Policies and Procedures manual and several standard operating procedures (SOPs) for some of its business office functions. However, a review of these documents and interviews with staff revealed some inconsistencies. For example:

- Information in the Fiscal Policies & Procedures manual regarding the threshold at which school sites must obtain preapproval for all purchases ($2,000) differs from the threshold in the General Accounting Policies and Procedures manual ($1,000).
- The Replenishing Petty Cash SOP states that a "Site never has less than $100 in petty cash on hand," but interviewees indicated that some sites do not have petty cash.

The Fiscal Policies & Procedures manual discusses the use of debit cards; however, individuals interviewed stated that debit cards are not used, and best practice is not to obtain or use debit cards. The manual also refers to a fixed asset inventory list, but no SOP was provided regarding the specific processes to complete an inventory, including required dollar thresholds and requirements for items purchased with federal funds. In addition, some forms — for example, the Cash Count Log and Deposit Log Form — do not have lines for the date of each signature. The charter group should regularly review and update its manuals, SOPs and forms to ensure they are consistent, contain procedures for all business office functions, and include best practices and all relevant information.

Because electronic storage of some of the charter group's financial documents resides with its back office provider and/or in a new financial system, REAL Journey Academies should also consider maintaining hard copies of these documents for the required retention period. For example, documentation for journal entries should be maintained by the central office as indicated in the Record Retention Policy section of the General Accounting Policies and Procedures manual.

FCMAT appreciates the opportunity to serve REAL Journey Academies and extends thanks to all the staff for their assistance during this review.

Sincerely,

Diane Branham

Diane Branham
Chief Analyst