FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

January 24, 2024

Julie Braswell, Superintendent
The Palmdale Aerospace Academy
3300 E. Palmdale Blvd.
Palmdale, CA 93550

Dear Mrs. Braswell,

In December 2022, the Palmdale Aerospace Academy (TPAA) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide both on-site and off-site technical assistance to charter personnel in the Business Services Department through June 30, 2023. This agreement was subsequently extended to include 25 additional days of technical support through June 30, 2024.

The school initially engaged FCMAT to help transition its business operations from a back office provider (Charter Impact) to internal school staff, including developing processes and procedures to support best practices, internal controls, and financial reporting using the state's standardized account code structure (SACS) and software system. With the exit of the school's director of business services and finance in July 2023, FCMAT's technical support expanded to include activities such as helping prepare the 2022-23 unaudited actuals and 2023-24 first interim financial reports.

The purpose of this letter is to confirm the observations and recommendations FCMAT discussed with the school's superintendent in the exit meeting on January 22, 2024, which marked the conclusion of FCMAT's contracted days of technical support services.

The following summarizes the work performed since December 2022:

1. **2022-23 Beginning Balances**

   FCMAT helped the school's director of business services and finance (who has since left the position) import the 2021-22 ending balances (provided by Charter Impact) into the school's new financial system (Smartetools) and reconcile those entries to the 2021-22 unaudited actuals report prepared by Charter Impact, to ensure the school was prepared and able to accurately report its 2022-23 estimated actuals in the state's SACS software.

   The school has not reviewed or reconciled the remaining 2021-22 balance sheet accounts, and FCMAT recommends that the school contract with a financial consultant to complete the system conversion, including a reconciliation of the balance sheet accounts.

2. **SACS Compliance**

   FCMAT helped the business staff revise the school's chart of accounts to ensure compliance with the state's SACS software system and promote operational efficiencies (e.g., budget monitoring and LCAP reporting).

FCMAT recommends that the school continue to use the SACS software system to verify the validity of new account strings created in the Smartetools system. In addition, as part of a monthly closing process, the school should export its financial data from the Smartetools system and run a technical review check in SACS to correct any potential errors.

3. Bank Reconciliations

Bank account reconciliations are an essential internal control tool to prevent and detect fraud and should be prepared and reviewed monthly for all charter school bank account transactions. FCMAT collaborated with the school's staff to develop a process and written procedures to document monthly bank reconciliations for the school's two main operating accounts (TPAA and associated student body), as well as the bond trustee (Zions Bank) accounts. This work included ensuring that all bank reconciliations were complete for the fiscal year ending June 30, 2023.

FCMAT recommends that the school continue to complete all bank reconciliations by the 15th of each month to ensure accurate and timely financial data is reported to the governing board, authorizing district, state, and other interested parties.

4. Monthly Closing Process

FCMAT developed and trained the school's staff on a monthly closing process to organize and monitor the day-to-day activities needed to support the school's business operations. FCMAT created a checklist to support this process, which includes supervisory reviews and approvals to strengthen internal controls.

FCMAT recommends that the school continue to add to this checklist as it continues to improve its processes, and that it develop similar checklists for a quarterly and year-end close. The school should also report monthly financials to the governing board, including a budget-to-actuals report and financial statements (i.e., income statement, balance sheet, and cash flow) for each month. The school should also consider presenting monthly purchase order and warrant list reports to the governing board. These reports are available in Smartetools.

5. Payroll

FCMAT collaborated with the school's business staff to create a process and written procedures to document how to create a journal to enter payroll data into the school's financial system. Because the school contracts with a third-party provider (Paylocity) for payroll services, all payroll transactions need to be journaled into Smartetools (the school's financial system of record).

FCMAT recommends that the business staff record all payroll transactions in Smartetools immediately after they are completed in Paylocity, or at least monthly as part of the monthly close. In addition, FCMAT recommends that the school contract with a financial consultant to complete the procedures and documentation needed to support the payroll conversion process, including the reconciliation of payroll liability accounts. The school would benefit from adding the following activities to its payroll monitoring process: (1) create a payroll tracking workbook in a spreadsheet program to track each payroll by process number and date, including a description of the payroll transaction; (2) create a manual payroll check

register workbook in a spreadsheet program to track each payroll check as it clears the bank, and reconcile the outstanding manual check total to the balance sheet account; (3) create a process and written procedures to reconcile retirement savings (403b/457) contributions and payments to the balance sheet account; and (4) create a process and written procedures to reconcile State Teachers' Retirement System (STRS) contributions and penalty and interest payments to the balance sheet account. Paylocity records the STRS contributions (employer and employee), and those transactions post into Smartetools with the payroll journal; however, Paylocity does not record STRS penalty and interest payments, and the school has no process for recording those expenses. All payroll-related automated clearing house (ACH) payments (STRS and voluntary employee benefits) should be journaled into the financial system immediately after submission to the bank, or at least monthly as part of the monthly close.

6. Health and Welfare Benefits

In fall 2023, the school's staff determined that the payroll system (Paylocity) had overexpensed the employer's health and welfare contribution in both 2022-23 and 2023-24. FCMAT helped staff identify the errors for the 2023 calendar year (to correct 2023 W2 reporting) and make those correcting entries in the school's financial system for January 2023 through December 2023.

The school still needs to record the adjusting entry in the system for July 2022 through December 2022. In addition, FCMAT recommends that the school create a process and written procedures to reconcile employee health and welfare deductions and the employer's health and welfare contributions to provider bills (including medical, dental, vision, and voluntary benefits) to their respective balance sheet accounts.

7. 2022-23 Year-End Close

With the exit of the director of business services and finance in July 2023, the school contracted with a consultant to complete the 2022-23 unaudited actuals forms. FCMAT helped the school's staff and consultant complete various activities needed for the 2022-23 year-end close, including bank reconciliations and corrections to most of the income accounting for 2022-23.

8. 2023-24 First Interim Financial Report

FCMAT prepared the school's 2023-24 first interim financial report, which included a multiyear financial projection (MYFP) and cash flow projection for the 2023-24, 2024-25, and 2025-26 fiscal years, using FCMAT's Projection-Pro software. FCMAT has given the school's interim director of business services and finance access to these projections in the Projection-Pro software.

FCMAT recommends that the school continue to prepare its MYFPs and cash flows in Projection-Pro, and that it create a process and written procedures to prepare and present a monthly cash flow projection to the governing board.

9. Department Organizational Structure and Position Duties

In December 2022, the school's Business Services Department consisted of the following positions: director of business services and finance (1 FTE), business services specialist (1 FTE), accounting/data processing specialist (2 FTE), and receiving clerk (1 FTE). In July

2023, both the director and one accounting/data processing specialist left their positions. As of this letter, both positions remain vacant; however, the school has hired a consulting interim director. FCMAT interviewed the remaining business staff and reviewed department job descriptions to analyze the distribution of duties and to create a recommended department staffing structure.

FCMAT recommends that the school review FCMAT's analysis, consider adding more permanent positions, and provide the current staff with additional support as soon as possible. If the school cannot adequately staff the business department in one to two months, it should contract with a third-party back office provider for additional support.

10. Staff Professional Development

Although the school's business staff have prior accounting and/or payroll experience, they have no experience working in school business and limited training opportunities. FCMAT provided several resources for staff to access to help with professional development, including School Services of California (SSC) training on the 2023-24 state budget. FCMAT also has a free, downloadable accounting and best practices manual developed specifically for charter school staff. However, the school's business office staff would benefit from additional training in SACS, basic principles of school accounting, budgeting, purchasing, and payroll, including STRS reporting.

FCMAT recommends that the school continue to provide its business staff with opportunities for professional learning to increase expertise in their assigned areas, and annually develop an individualized professional learning plan for each staff member.

FCMAT appreciates the opportunity to serve TPAA and extends thanks to all the staff for their assistance during this engagement.

Sincerely,

Erin Lillibridge
Intervention Specialist