

The California State Auditor released the following report today:

## Magnolia Science Academies

*Although the Financial Condition of These Charter Schools Has Improved, Their Financial Controls Still Need to Be Strengthened*

### BACKGROUND

In California, more than 514,000 students were enrolled in 1,125 charter schools in the last school year. Charter schools receive external oversight from the entities authorizing their charters. Eleven charter schools are operated by the Magnolia Educational and Research Foundation (Foundation)—a charter management organization that is responsible for ensuring its charter schools' adherence to federal and state law. The Los Angeles Unified School District (LAUSD) is the authorizing entity for eight of these 11 charter schools, which are called the Magnolia Science Academies (academies).

### FINDINGS

During our review of the Foundation and its academies, we noted the following:

- Although some of the academies struggled financially—to the point of insolvency—during the past three fiscal years, all became solvent by July 2014.
  - ✓ The Foundation's management facilitated loans between academies with excess funds and academies requiring funds to address cash-flow problems and did not charge some academies its full management fee.
  - ✓ The loans—all but one repaid as of July 2014—enabled the struggling academies to continue to serve their students without negatively affecting the academies that provided the loans.
- Although the Foundation's budget process provides some assurance that the academies budgeted state funds for appropriate activities, the Foundation has not consistently monitored the academies' spending.
  - ✓ It could not provide us monthly financial reports for two of the four academies we reviewed or other reports staff claimed to use to monitor budgets, such as year-to-date cash-flow reports.
  - ✓ Nearly a quarter of the 225 expenditures we reviewed lacked both proper authorization and sufficient support.
  - ✓ The Foundation could not demonstrate that it preauthorized 19 of the 20 debit card transactions we reviewed.
- Although we generally found that the 35 vendor agreements we reviewed at the Foundation and four academies included appropriate information, we could not determine if those signing the agreements were authorized to do so. Further, we questioned the Foundation's relationship with one of its primary vendors.
- The Foundation has not ensured that it accurately collects and reports payroll data—we found 16 instances in which the payroll information that academy principals sent to the Foundation did not agree with the payroll information the Foundation sent to its payroll vendor.
- Academy staff underreported information to the California Department of Education (Education) regarding the number of their truant students.
- Because LAUSD used a summary of draft findings and did not give the Foundation sufficient time to respond to its criticisms, LAUSD may have acted prematurely when it rescinded its conditional approval of two academies' charter petitions—the Foundation took legal action and the LAUSD ultimately renewed the academies' charters.

### KEY RECOMMENDATIONS

We made numerous recommendations to the Foundation, including that it take the following actions:

- Ensure that each academy maintains the minimum required cash reserve.
- Update policies regarding selection of vendors and maintain independence in its relationships with vendors.
- Ensure it appropriately authorizes and includes sufficient support for all of its and the academies' expenditures.
- Continue to develop procedures for academies to use in reporting truancy data to Education.

We also recommended that, when considering action against a charter school's petition, LAUSD provide the charter school with sufficient time to respond or remedy issues.

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