




Santa Clara County Office of Education

Xavier De La Torre, Ed.D.
County Superintendent of Schools

May 15, 2013

TO: Santa Clara County Board of Education

FROM: Toni Cordova 
Chief Strategy Officer

Micaela Ochoa
Chief Business Officer

VIA: Xavier De La Torre, Ed.D.
County Superintendent of Schools

SUBJECT: Notice of Concern to be issued to Magnolia Science Academy –
Santa Clara Countywide Benefit Charter School

On January 23, 2013, the Santa Clara County Board of Education (County Board) approved the renewal of the countywide charter for Magnolia Science Academy – Santa Clara (MSA-SC). As staff outlined in that Board transmittal, financial deficiencies needed to be addressed and corrected by MSA-SC and then approved by the County Office of Education, before a Memorandum of Understanding (MOU) could be signed. Furthermore, the Board of Education provided direction to staff to incorporate into the MOU a set of expectations and safeguards to ensure the financial viability of the school for the five-year renewal period as outlined in the Staff Analysis.

On May 1, 2013, Staff provided an updated report to the Board on the financial status of MSA-SC. Staff received direction at that meeting to proceed with issuing a Notice of Concern. According to Education Code Section 47607(4)(d):

Prior to revocation, the authority that granted the charter shall notify the charter public school of any violation of this section and give the school a reasonable opportunity to remedy the violation, unless the authority determines, in writing, that the violation constitutes a sever and imminent threat to the health or safely of the pupils.

(Emphasis added.)

Recommended Action

Therefore, staff recommends that the Santa Clara County Board of Education, the authority that granted the charter, take action to approve the issuance of the Notice of Concern to Magnolia Science Academy – Santa Clara Countywide Benefit Charter School which follows.

Attachment



Santa Clara County Office of Education

Xavier De La Torre, Ed.D.
County Superintendent of Schools

May 16, 2013

VIA EMAIL and CERTIFIED U.S. MAIL

Mehmet Argin, Ph.D.
Chief Executive Officer
Magnolia Public Schools
13950 Milton Avenue 200B
Wesminster, CA 92683
margain@magnoliapublicschools.org

RE: Notice of Concern

Dear Dr. Argin:

On January 23, 2013, the Santa Clara County Board of Education (County Board) approved the renewal of the countywide charter for Magnolia Science Academy – Santa Clara (MSA-SC). As staff outlined in that Board transmittal, financial deficiencies needed to be addressed and corrected by MSA-SC and then approved by the County Office of Education before a Memorandum of Understanding (MOU) could be signed. Furthermore, the Board of Education provided direction to staff to incorporate into the MOU, a set of expectations and safeguards to ensure the financial viability of the school for the five-year renewal period as outlined in the Staff Analysis.

On May 1, 2013, Staff provided an updated report to the Board on the financial status of MSA-SC. Staff received direction at that meeting to proceed with issuing a Notice of Concern. According to Education Code Section 47607(4)(d):

Prior to revocation, the authority that granted the charter shall notify the charter public school of any violation of this section and give the school a reasonable opportunity to remedy the violation, unless the authority determines, in writing, that the violation constitutes a severe and imminent threat to the health or safety of the pupils.

Pursuant to Education Code section 47607(c), a charter may be revoked by the authority that granted the charter if the authority finds, through a showing of substantial evidence, that the charter did any of the following:

1. Committed a material violation of any of the conditions, standards, or procedures set forth in the charter.
2. Failed to meet or pursue any of the pupil outcomes identified in the charter.
3. Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement.
4. Violated any provision of law.

Pursuant to Section 47607(d), and prior to revocation, the chartering authority shall:

County Board of Education: Leon F. Beauchman, Michael Chang, Joseph Di Salvo, Julia Hover-Smoot, Grace H. Mah, Anna Song
1290 Ridder Park Drive. San Jose, CA 95131-2304 (408) 453-6500 www.sccoe.org

A Champion for Children, Schools and Community

- Notify the charter school of any violation and give the charter school a reasonable opportunity to remedy the violation.
- Serve as notice to Magnolia Educational and Research Foundation and Magnolia Science Academy – Santa Clara the expectation that the items noted below must be addressed to the satisfaction of the staff no later than May 31, 2013.

Failure to Meet Generally Accepted Accounting Principles

As we have been discussing with you and your staff since July 2012, and more recently with your March 2013 Second Interim Report, the Santa Clara County Office of Education finds that MSA-SC has failed to meet generally accepted accounting principles.

Letters, meeting minutes and agendas from the previous eight months reflect evidence of MSA-SC's failure to meet generally accepted accounting principles. Below we highlight more recent examples of our serious concerns:

- **March 15, 2013:** MSASC submitted their 2nd Interim Report. The cash flow statement did not include any activity for 58% of the year from July 2012 to January 2013. In addition, it failed to include accruals. As a result, the cash flow totals did not match and were inconsistent with the budget reflected in each category. Further, the Ending Cash plus Accruals figure reflected a negative (\$94,802).
- **March 19, 2013:** SCCOE staff had a lengthy meeting with MSA-SC to address the issues, and walked MSA-SC staff through how to correct the issues. This serious corrective action meeting is consistent with several prior meetings.
- **March 29, 2013:** MSASC submitted a revised 2nd Interim Report.
 - ✓ The cash flow statement ending cash balances for July 2012, August 2012, September 2012, and October 2012 did not –and still do not – match the monthly financial statements that were provided on August 15, 2012, September 15, 2012, October 15, 2012, or November 15, 2012, for each of the respective months.
 - ✓ There is a \$100,000 variance between total for Books, Supplies, and Services objects 4000 to 5999,
 - ✓ There are inconsistencies with totals, where the cash flow statement reflects a total of \$1,207,476 and the budget reflects a total of \$1,107,476.

In a two week period from the initial submission of the 2nd Interim Report to the second submission of the 2nd Interim, the ending fund balance changed from \$5,683 to \$113,682, lacking adequate justification. Furthermore, the renewal petition's financial data projections do not match 2nd interim projections. For example, the petition reflects enrollment of 588 in FY2013-14 and 588 in FY2014-15, which is the facility maximum, but the 2nd Interim report reflects enrollment of 570 in FY2013-14 and 615 in FY2014-15.

In order to compare the petition figures for FY2013-14 to what was provided in the 2nd Interim, the Approved Budget for FY2013-14 must be provided. Per Magnolia Educational & Research Foundation Accounting Manual G&A118 Budgeting, it is the policy to “have the school site budget approved by the Board of Directors no less than 60 days before the fiscal year end.” Given this policy, the 2013-14 operating budget should have been approved by May 1, 2013, and should be available.

As we discussed during our meeting on May 6, 2013, the SCCOE still needs MSA-SC to provide data on the following regarding the second 2nd Interim:

1. Provide an explanation and plan for future facilities and how that impacts Multiyear projection budgets.
2. Substantiate the \$18,000 for PCSGP revenue.
3. Provide the basis for the increase in fundraising and an explanation of the planning and budgeting for fundraising revenue in the multi-year projections.
4. Provide Staffing details as requested during our March 19, 2013 meeting and in the March 21, 2013 email.
5. Specify which employees, listed on the Staffing Details that will be provided, were assumed to have OASDI calculated for the budget used in 1st Interim and 2nd Interim.
6. Explain 1) the increase in Books and Supplies for object code 4xxx from FY12-13 to FY13-14, and 2) which, if any, of the cost saving methodologies used in FY12-13 are being carried forward to future years.
7. Explain the \$34,000 reduction in the Janitorial Services budget;
 - a. Provide the vendor name responsible for Janitorial services; the specifics of the contract and services covered by the \$6,000 Janitorial budget;
 - b. Provide the amount that has been expended as of April 30, 2013, for Janitorial Services;
 - c. Provide the year to date expenditures for all of the other items in object 5500;
 - d. Explain how Janitorial Services are changing, if at all, for FY13-14 & FY14-15.
8. Provide actuals year-to-date for each of the items in object code 5600 as requested during our March 19, 2013 meeting and the March 21, 2013 email, and provide an explanation of plans for future facilities and how that impacts Multiyear projection budgets.
9. Provide the details for the actuals year-to-date for each of the items in object code 5800;

- a. Assuming that the \$156,000 budget for "Business Service by MERF" is the CMO fee, please clarify whether the CMO fees are 11% of revenue, as was stated in the March 19, 2013 meeting, or the approximately 5% as reflected in the budget.
 - b. What are the terms of the CMO fee? Please provide a copy of the latest agreement.
 - c. Describe the process and required actions in place if the actuals exceed the budget.
 - d. Provide an explanation of "Unused Personal/sick day compensation" and why it is included in object 5800.
 - e. Identify the budgeted amount assumed for CMO fees for Multi Year Projections and explain how it is calculated.
 - f. Provide an explanation of the 46% increase in total budget for object 5800 from FY12-13 to FY13-14.
10. Provide copies of the final executed agreement for both the MERF loan and the Charter Loan to determine the appropriate coding for these activities.
 11. Explain the calculation for Reserve for Economic Uncertainties.
 12. Provide the specific steps that have been or will be taken to ensure positive Ending Fund Balance and Unassigned/Un-appropriated Amount as requested in the March 19, 2013 meeting and the March 21, 2013 email request.
 13. Assuming the monthly financials submitted are correct, provide correct actuals on the Cash Flow for July through October to ensure that ending cash matches the ending cash on financials.
 14. The total on Cash Flow for object code 4000s and 5000s do not match the total on 2nd Interim Budget details. MSA-SC must correct the variance and resubmit 2nd Interim.
 15. Provide a current Organization Chart

Again, the above items must be remedied by MSA-SC on or before May 31, 2013. Should MSA-SC fail to successfully remedy the above items to the satisfaction of the Santa Clara County Office Board of Education, then the Board reserves the right to pursue a Notice of Violation and charter revocation, pending the outcome of the requested response.

Sincerely,

Micaela Ochoa
Chief Business Officer