

SCHOOL FINANCIAL REPORT REQUIREMENT

Florida Tax Credit Scholarship Program

March 15, 2011

Fiscal Accountability for Participating Schools Guidelines and Procedural Requirements Guide

Overview

The Florida Tax Credit Scholarship was enacted in 2001 to provide educational options to make scholarships available to children whose household income qualifies them for free or reduced-price lunch. In 2010, the Legislature added a new provision, 1002.395(8)(e), that requires participating schools receiving more than \$250,000 in scholarship money during the fiscal year July 1 to June 30 to file an accountability report. This accountability report focuses on the use of the scholarship money and the financial procedures and controls in place at the schools. That report, in the form of Agreed-Upon Procedures, is to be completed by an independent Certified Public Accountant (CPA).

The Agreed-Upon Procedures are developed jointly by all state-approved nonprofit Scholarship Funding Organizations that have provided more than \$250,000 in Tax Credit Scholarships in the year prior to each biennial review. The first program of Agreed-Upon Procedures is to be completed and provided to private schools and the state education commissioner by March 15, 2011. The Agreed-Upon Procedures below were developed in accordance with the standards established by the American Institute of Certified Public Accountants in Statements on Standards for Attestation Engagements (AT Sec. 201) and following the input of accrediting associations that are members of the Florida Association of Academic Nonpublic Schools.

Each school receiving more than \$250,000 in a fiscal year, July 1 to June 30, is required to submit an original copy of the Independent Accountant's Report on Applying Agreed-Upon Procedures by September 15 following the end of that fiscal year. The Report is to be submitted to the Scholarship Funding Organization that provides more than half the school's scholarship receipts. Faxed copies will not be accepted and will be discarded upon receipt. In return, the Scholarship Funding Organization must report to the Commissioner of Education by October 30 of that year: 1) A school's failure to file the Independent Accountant's Report on Applying Agreed-Upon Procedures; and 2) Any material exceptions set forth in a school's Independent Accountant's Report on Applying Agreed-Upon Procedures.

The Agreed Upon Procedures

I. School Eligibility

- A. Examine the most recent compliance letter from the Florida Department of Education, note effective date, and include a copy of the letter with report.

II. Adequate Accounting System

- A. Specify the accounting software or system used to maintain the school's financial records.
- B. Examine the chart of accounts and the method the school uses to identify and record its various funding sources (tax credit scholarships, tuition, local, state or federal funding). Is each funding source separately classified in the accounting records?

III. System of Financial Controls:

By inquiry,

- A. Verify that the school's scholarship monies are held at a federally insured depository institution.
- B. List the description of non-school expenses or the names of entities that share the same bank account.
- C. Provide a brief synopsis of the procedures the school uses to disburse money for capital expenditure, personnel, services, and materials.
- D. Describe the financial controls that are used in conjunction with the procedures for disbursing funds, as summarized in Agreed-Upon Procedure III C, to ensure disbursements are for school-related expenses.
- E. Verify that bank reconciliations are completed and independently reviewed within 60 days of each month end.
- F. Identify whether an annual budget is utilized.

IV. Process for deposit and classification of scholarship funds.

- A. Provide a brief synopsis of the procedures the school uses to record cash receipts and check receipts. The Florida Tax Credit Scholarship legislation requires that each parent restrictively endorse the warrant to the private school for deposit into the account of the private school. Include the school's procedures for parent endorsement and deposit of the scholarship warrants in the synopsis of procedures.
- B. Describe the financial controls that are used in conjunction with the procedures for recording receipts, as summarized in Agreed-Upon Procedure IV A, to ensure school-related receipts are completely and accurately recorded.

V. Properly expended scholarship funds for education-related expenses.

- A. Obtain the dollar value of the Florida Tax Credit Scholarships awarded to students attending the school. By examining the general ledger, identify and list education-related expenses totaling at least that amount.
- B. Select a sample composed of the greater of either 25 students or 10% of the students from the Tax Credit scholarship payment history. Obtain the school's student attendance policy. Examine the attendance records for these students and determine whether they meet the school's attendance standard.
- C. Without advance notice to the school of the sample of students, select 10 students from the scholarship payment history and confirm the student's presence in school that day. If the student is not present, ensure the student is listed as absent on the school's attendance record.

Material Exceptions

I. Definition of a Material Exception

- A. A material exception is a material weakness in internal controls or a material transaction or series of transactions that were not accurately recorded by the accounting system. The independent accountant applying the Agreed-Upon Procedures is responsible for reporting material exceptions identified during the testing process in the report to the Scholarship Funding Organization.
- B. What is a material weakness in internal controls? An internal control is a procedure or organizational practice designed to ensure all financial transactions are completely and accurately recorded. If one or more of a school's internal controls do not achieve this objective, the school's internal control system has a weakness. That weakness in internal control is defined as a material weakness if it could lead to a material misstatement in a school's financial statements. Material misstatements are errors so significant that they change the judgments and conclusions made by readers of the misstated financial statements. The standards and publications of the AICPA also provide guidance on this subject.

2. Examples of Material Exceptions

Material exceptions are identified with the professional judgment of the independent accountant applying the Agreed-Upon Procedures. The following are examples of material exceptions and do not represent an exhaustive listing.

Example One:

The situation: The school principal writes checks when he receives a request for payment. He is aware of the service provided. The check is signed by the principal and mailed to the vendor. Supporting documentation is not maintained for these payments.

Why is this a material exception? The segregation of duties is inadequate. In this case, one person is able to initiate, record, authorize and complete a transaction. This allows inappropriate expenditures to go undetected. In addition, because written documentation is not maintained for each payment, the school will not be able to demonstrate that funds were used for educational expenses.

Example Two:

The situation: The school principal attends the school meeting held by the Scholarship Funding Organization to hear about program changes and collect the scholarship checks. She deposits these checks in the school bank account on her way home.

Why is this a material exception? The parents' endorsements on the scholarship checks were not obtained before the checks were deposited. This violates the check cashing procedures published by the Scholarship Funding Organization and included in the Florida Tax Credit Scholarship Program law. The transmittal sheet listing the scholarship payments made to the school was not independently compared to the deposits in the school bank account. As a result, there is no assurance that all scholarship checks were deposited in the school bank account.

Example Three:

The situation: The bank account is reconciled only at year's end.

Why is this a material exception? Bank account reconciliations are a key control to ensure all transactions are recorded. Typically, this reconciliation should be completed more frequently and reviewed by someone independent of the preparer.

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To (name of Scholarship Funding Organization):

We have performed the procedures described below, which were agreed to by (name of Scholarship Funding Organization), solely to assist you in determining the compliance of (name of school) with the requirements of S. 1002.395(6)(n)1.a, Florida Statute. (Name of school) is responsible for maintaining its financial records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are enumerated on the attached Exhibit I.

We were not engaged to and did not conduct an audit intended to express an opinion on the school's fiscal accountability. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the (name of Scholarship Funding Organization) and is not intended to be and should not be used by anyone other than this specified party.

[Signature]

[Date]