

SCHOOL FINANCIAL REPORT REQUIREMENT

Florida Tax Credit Scholarship Program

March 15, 2015

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 and current, Florida Certified Public Accountant (CPA).

The Agreed-Upon Procedures are developed and revised 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 review of the Agreed-Upon Procedures was completed in February 2013 and revised Agreed-Upon Procedures were provided to private schools and the state education commissioner on March 15, 2013. The revised 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 to the Scholarship Funding Organization that provides more than half its scholarship receipts by September 15, following the end of that fiscal year. 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 compliance letter –or other proof of eligibility from the Florida Department of Education that cover the school year being tested, and include copies 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. Provide a description of non-school expenses and the names of other organizations 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.
- G. Describe material exceptions identified by Procedures III A – F.

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.
- C. Describe material exceptions identified by Procedures IV A – B.

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 provide a list of education-related expenses totaling at least that amount.
- B. Obtain a copy of the tuition & fees schedule for the school year being tested. Select a sample composed of the greater of either 25 students or 10% of the students from the Tax Credit scholarship payment history. Confirm that the school is following the same policy for all students.
- C. 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.
- D. 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.
- E. Describe material exceptions identified by Procedures V A – D.

Specific Guidelines Governing the Materiality of 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. It is the responsibility of the independent accountant applying the Agreed-Upon Procedures to report exceptions identified during the testing process that they deem material in their 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.

II. 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.

- A. **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 -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.
- B. **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 check were not obtained before the check was deposited. This violates the check cashing procedures published by the Scholarship Funding Organization and included in the Florida Tax Credit Scholarship Program Act. 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.
- C. **Example Three:** *The situation:* The bank account is reconciled at year 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 enumerated below, which were agreed to by (name of Scholarship Funding Organization), solely to assist the specified parties in evaluating (name of school)'s compliance with the requirements of Florida Statute 1002.395(6)(n)1.a during the school year ended (Date). Management is responsible for (Name of school)'s compliance with those requirements. 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 those specified parties 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.

(List procedures and findings).

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. 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 (name of Scholarship Funding Organization) and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[*City, State*]

[*Date*]

Addendum

1002.395(8)(e)

(8) PRIVATE SCHOOL ELIGIBILITY AND OBLIGATIONS.—An eligible private school may be sectarian or nonsectarian and must:

(e) Annually contract with an independent certified public accountant to perform the agreed-upon procedures developed under paragraph (6)(n) and produce a report of the results if the private school receives more than \$250,000 in funds from scholarships awarded under this section in the 2010-2011 state fiscal year or a state fiscal year thereafter. A private school subject to this paragraph must submit the report by September 15, 2011, and annually thereafter to the scholarship-funding organization that awarded the majority of the school's scholarship funds. The agreed-upon procedures must be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

1002.395(6)(n)

(6) OBLIGATIONS OF ELIGIBLE NONPROFIT SCHOLARSHIP-FUNDING ORGANIZATIONS.—An eligible nonprofit scholarship-funding organization:

(n)1.a. Must participate in the joint development of agreed-upon procedures to be performed by an independent certified public accountant as required under paragraph (8)(e) if the scholarship-funding organization provided more than \$250,000 in scholarship funds to an eligible private school under this section during the 2009-2010 state fiscal year. The agreed-upon procedures must uniformly apply to all private schools and must determine, at a minimum, whether the private school has been verified as eligible by the Department of Education under paragraph (9)(c); has an adequate accounting system, system of financial controls, and process for deposit and classification of scholarship funds; and has properly expended scholarship funds for education-related expenses. During the development of the procedures, the participating scholarship-funding organizations shall specify guidelines governing the materiality of exceptions that may be found during the accountant's performance of the procedures. The procedures and guidelines shall be provided to private schools and the Commissioner of Education by March 15, 2011.

b. Must participate in a joint review of the agreed-upon procedures and guidelines developed under sub-subparagraph a., by February 2013 and biennially thereafter, if the scholarship-funding organization provided more than \$250,000 in scholarship funds to an eligible private school under this section during the state fiscal year preceding the biennial review. If the procedures and guidelines are revised, the revisions must be provided to private schools and the Commissioner of Education by March 15, 2013, and biennially thereafter.

c. Must monitor the compliance of a private school with paragraph (8)(e) if the scholarship-funding organization provided the majority of the scholarship funding to the school. For each private school subject to paragraph (8)(e), the appropriate scholarship-funding organization shall notify the Commissioner of Education by October 30, 2011, and annually thereafter of:

(I) A private school's failure to submit a report required under paragraph (8)(e); or

(II) Any material exceptions set forth in the report required under paragraph (8)(e).

2. Must seek input from the accrediting associations that are members of the Florida Association of Academic Nonpublic Schools when jointly developing the agreed-upon procedures and guidelines under sub-subparagraph 1.a. and conducting a review of those procedures and guidelines under sub-subparagraph 1.b.

AT Sec. 201

<http://pcaobus.org/Standards/Attestation/Pages/AT201.aspx>

<http://www.aicpa.org/Research/Standards/AuditAttest/Pages/audit%20and%20attest%20standards.aspx>

This section sets forth attestation standards and provides guidance to a practitioner concerning performance and reporting in all agreed-upon procedures engagements.