

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

STEP UP FOR STUDENTS – FLORIDA, INC.



Sherrill F. Norman, CPA
Auditor General

President and Board of Directors

During the period July 2023 through March 2024, Doug Tuthill served as President for Step Up For Students – Florida, Inc., and the following individuals served as Members of the Board of Directors:

John Kirtley, Chair	Alfred “Al” Lawson
Baron Concors	John Legg
Karen Hobbs	Denisha Merriweather
Terry Jove	Richard Outram
Linh Lam	Curtis Stokes

The team leader was Nick Druash, CPA, and the audit was supervised by Gina M. Bailey, CPA.

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STEP UP FOR STUDENTS – FLORIDA, INC.

SUMMARY

This operational audit of Step Up For Students – Florida, Inc. (Step Up) focused on selective administrative activities and Step Up management’s performance related to the Florida Tax Credit Scholarship (FTC Scholarship) and Family Empowerment Scholarship (FES) Programs, including Step Up’s compliance with applicable laws and rules. The audit also included follow-up on the finding noted in our report No. 2022-072. Our audit disclosed the following:

Finding 1: Step Up did not timely process Family Empowerment Scholarship for Educational Options (FES-EO) Program private school tuition payments in accordance with State rules. In addition, Step Up did not promptly process FTC Scholarship private school tuition payments or transportation payments for either the FES-EO or FTC Scholarship Program.

Finding 2: Step Up did not promptly process parent and guardian reimbursement requests for the FTC Scholarship and FES-EO Program in accordance with Step Up policies.

Finding 3: Contrary to State law, Step Up did not prioritize student application processing by renewal status for Family Empowerment Scholarship for Students with Unique Abilities (FES-UA) Program students.

Finding 4: Contrary to State law, Step Up did not allocate interest earnings to individual FTC Scholarship and FES-EO Program student accounts.

Finding 5: Contrary to State law, Step Up continued to fund FES-UA Program student accounts that had balances exceeding \$50,000.

Finding 6: Step Up had not developed policies and procedures to ensure that, as required by State law, accounts are closed and unused funds are returned to the Florida Department of Education when FES-UA Program students do not attend an eligible post-secondary educational institution within 3 years of high school graduation.

BACKGROUND

Step Up For Students – Florida, Inc. (Step Up), is a nonprofit scholarship-funding organization (SFO), incorporated in Florida and operating pursuant to State law.¹ Step Up is a wholly owned subsidiary of Step Up For Students, Inc. Step Up’s stated mission is to:

- Expand education opportunities for every child.
- Empower families to access the best possible learning options for their children.
- Strengthen public education by offering options to all families so they can choose the learning environment that best meets their children’s individual needs.

¹ Section 1002.395(2)(g), Florida Statutes.

The governing body for Step Up is the Board of Directors for Step Up For Students, Inc. (Board), which is composed of 5 to 12 members who serve 1 to 3 year terms. New members are elected by the Board. The Board sets policy, develops and approves strategic plans and the related allocation of resources, and is responsible for the organization's performance.

State law² requires the Florida Department of Education (FDOE) to determine, and annually verify, the eligibility of each SFO, and the FDOE recognized Step Up as an eligible nonprofit SFO for the 2023-24 fiscal year. As an eligible nonprofit SFO, Step Up administers four scholarship programs for Florida school children: the Florida Tax Credit Scholarship (FTC Scholarship) Program, the Family Empowerment Scholarship (FES) Program, the Hope Scholarship Program, and New Worlds Scholarship Accounts.

Florida Tax Credit Scholarship Program. State law³ established the FTC Scholarship Program to expand educational opportunities for students who are Florida residents and eligible to enroll in kindergarten through grade 12 in a public school in Florida.⁴ Scholarship priority must be given in the following order:⁵

- A student whose household income level does not exceed 185 percent of the Federal poverty level or who is in foster care or out-of-home care.
- A student whose household income level exceeds 185 percent of the Federal poverty level but does not exceed 400 percent of the Federal poverty level.
- A student whose household income level exceeds 400 percent of the Federal poverty level.

The FTC Scholarship Program provides that eligible nonprofit SFOs may solicit and receive eligible contributions. Such contributions entitle donors to a 100 percent State tax credit against corporate income tax, insurance premium tax, alcoholic beverage excise tax, direct-pay sales tax, and oil and gas severance tax. Contributions are used to fund eligible student scholarships and State law⁶ requires the SFOs to verify that the scholarship funds are used for specified purposes. Those purposes include, for example:

- Tuition and fees for full-time or part-time enrollment in an eligible private school.
- Transportation to a public school that is different from the school to which the student was assigned or to a lab school.⁷
- Instructional materials, including digital materials and Internet resources.
- Curriculum and any required supplemental materials.

² Section 1002.395(9)(b), Florida Statutes.

³ Section 1002.395(3), Florida Statutes.

⁴ Section 1002.395(3), Florida Statutes.

⁵ Section 1002.395(3)(b)2., Florida Statutes.

⁶ Section 1002.395(6)(d), Florida Statutes.

⁷ Section 1002.395(11)(a)3., Florida Statutes (2023). Chapter 2024-230, Laws of Florida, amended Section 1002.31(7), Florida Statutes, to include and expand upon the transportation stipend provisions of Section 1002.395, Florida Statutes (2023), to provide that, contingent upon a legislative appropriation, and on a first-come, first-served basis, a public school student enrolled in kindergarten through grade 8 may receive a stipend for transportation to a Florida nonvirtual public school that is different from the school to which the student is assigned or to a developmental research (lab) school authorized under Section 1002.32, Florida Statutes.

- Tuition and fees associated with full-time or part-time enrollment in a home education instructional program, an eligible postsecondary educational institution or a program offered by the postsecondary educational institution, an approved preapprenticeship program, an authorized private tutoring program and certain part-time tutoring services, and certain virtual instruction programs and online courses.
- Fees for specified achievement tests, examinations, and assessments.

Per State Board of Education rule,⁸ the FTC Scholarship Program also provides for students participating in a Personalized Education Program (PEP) defined by State law⁹ as sequentially progressive instruction of a student directed by his or her parent while registered with an eligible SFO.

For the audit period July 2023 through March 2024, Step Up received \$569 million in FTC Scholarship Program contributions. The allowable scholarship award amounts varied by county and, during that same period, the largest amount awarded by Step Up to an eligible student was \$11,223.¹⁰

State law¹¹ limits the amount of net eligible contributions after administrative expenses that SFOs may carryforward each State fiscal year and requires SFOs to transfer to other SFOs the excess amount over those limits by September 30 of each year. On June 30, 2023, pursuant to State law, Step Up received a transfer of \$96.6 million from another SFO for 2022-23 fiscal year excess net contributions.

Florida Empowerment Scholarship Program. State law¹² established the Family Empowerment Scholarship (FES) Program to provide children of families in Florida which have limited financial resources with educational options to achieve success in their education. State rule¹³ defines two FES Program options:

- FES for Educational Options (FES-EO) is the option for students who are Florida residents and eligible to enroll in kindergarten through grade 12 in a public school in Florida. Priority must be given in the same order as with the FTC Scholarship Program. State law¹⁴ requires FES-EO moneys be used for specified purposes. Those purposes include, for example:
 - Tuition and fees at an eligible private school.
 - Transportation to a public school that is different from the school to which the student was assigned or to lab schools.
 - Instructional materials, including digital materials and Internet resources.
 - Curriculum and any required supplemental materials.
 - Tuition and fees associated with full-time or part-time enrollment in an eligible postsecondary educational institution or a program offered by the postsecondary educational institution, an approved preapprenticeship program, an authorized private tutoring program, the Florida Virtual School as a private paying student, or an approved online course.
 - Fees for specified achievement tests, examinations, and assessments.

⁸ State Board of Education Rule 6A-6.0960, Florida Administrative Code, *Florida Tax Credit Scholarship Program*.

⁹ Section 1002.01(1)(2), Florida Statutes.

¹⁰ The \$11,223 award amount pertained to eligible students in kindergarten through third grade residing in Monroe County.

¹¹ Section 1002.395(6)(l)2., Florida Statutes.

¹² Section 1002.394(1), Florida Statutes.

¹³ State Board of Education Rule 6A-6.0952, Florida Administrative Code, *Family Empowerment Scholarship Program*.

¹⁴ Section 1002.394(4)(a), Florida Statutes.

For the period July 2023 through March 2024, the allowable award amounts varied by county and largest FES-EO Program amount awarded by Step Up to an eligible student was \$11,223.¹⁵

- FES for Students with Unique Abilities (FES-UA)¹⁶ is the option for students who are Florida residents and have a disability described in State law,¹⁷ such as autism, cerebral palsy, or Down Syndrome. State law¹⁸ requires FES-UA moneys be used for specified purposes. Those purposes include, for example:
 - Instructional materials, including digital devices, digital periphery devices, and assistive technology devices.
 - Curriculum and any required supplemental materials.
 - Specialized services (e.g., behavior analysis, speech-language pathologist, occupational therapy, and physical therapy services) by approved providers selected by the parents.
 - Tuition and fees associated with full-time or part-time enrollment in a home education program, an eligible private school, an eligible postsecondary educational institution or a program offered by the postsecondary educational institution, an approved preapprenticeship program, an authorized private tutoring program and certain part-time tutoring services, certain virtual instruction programs and online courses, and Voluntary Prekindergarten Education programs.
 - Fees for specified achievement tests, examinations, and assessments.
 - Contributions to the Florida Prepaid College Program or Florida College Savings Program.
 - Fees for specialized summer and after-school education programs and certain music and art therapies.

For the period July 2023 through March 2024, FES-UA Program award amounts ranged from \$9,010 to \$33,100, depending on the student's date of application, county of residence, grade level, and disability type.

Hope Scholarship Program. The Hope Scholarship Program was created by State law,¹⁹ effective July 1, 2018, to provide the parent of a public school student who was subjected to certain specified incidents an opportunity to transfer the student to another public school or to request a scholarship for the student to enroll in and attend an eligible private school. The Hope Scholarship Program was funded through designated sales tax contributions of up to \$105 per motor vehicle purchased.²⁰ Effective July 1, 2024, the Hope Scholarship Program was repealed,²¹ and any students receiving that scholarship in the 2023-24 fiscal year were declared eligible for either the FES or FTC Scholarship Program in the 2024-25 and subsequent fiscal years.

For the audit period July 2023 through March 2024, Step Up received \$57 million in Hope Scholarship Program contributions. According to Step Up personnel, during that same period, the largest Hope Scholarship Program award made by Step Up to an eligible student was \$11,223.

¹⁵ The \$11,223 award amount pertained to eligible students in kindergarten through third grade residing in Monroe County.

¹⁶ Section 1002.394(3)(b), Florida Statutes.

¹⁷ Section 1002.394(2)(e), Florida Statutes.

¹⁸ Section 1002.395(4)(b), Florida Statutes.

¹⁹ Section 1002.40, Florida Statutes (2023).

²⁰ Section 1002.40(13), Florida Statutes (2023).

²¹ Chapter 2024-163, Laws of Florida.

New Worlds Scholarship Accounts. The New Worlds Scholarship Accounts, formerly Reading Scholarship Accounts, were created by State law²² to provide educational options for students with reading difficulties. Contingent upon available appropriated funds, and on a first-come, first-served basis, each student in kindergarten through grade 5 who is enrolled in a Florida public school is eligible for a reading scholarship account if the student has a substantial reading deficiency, exhibits characteristics of dyslexia, or scored below a Level 3 on the Statewide Standardized English Language Arts assessment in the prior school year. An eligible student who is classified as an English Language Learner and is enrolled in a program or receiving services that are specifically designed to meet the instructional needs of English Language Learner students are to receive priority. Students exhibiting a substantial deficiency in mathematics, or characteristics of dyscalculia are also eligible. For the period July 2023 through March 2024, the amount of each New Worlds Scholarship Accounts award was \$500.

Table 1 shows the number of students with FTC Scholarship Program, FES-EO Program, FES-UA Program, Hope Scholarship Program, and New Worlds Scholarship accounts during the period July 2023 through March 2024, and the amounts disbursed from those accounts during the same period.

Table 1
Number of Active Student Scholarship Accounts,
Amounts of Scholarships Awarded and Funded,
and Amounts Disbursed from Student Scholarship Accounts
During the Period July 1, 2023, through March 31, 2024

	FTC	FES-EO	FES-UA	Hope	New Worlds
Number of Active Student Scholarship Accounts	149,052	142,893	96,660	704	22,548
Total Amount of Scholarships Awarded and Funded (in millions)	\$1,072.9	\$782.4	\$353.2	\$3.9	\$11.3
Number of Active Student Scholarship Accounts with Disbursements	148,277	142,871	81,147	704	8,137
Amounts Disbursed from Student Scholarship Accounts for:					
Private School Tuition (in millions)	\$688.0	\$570.8	\$368.7	\$3.9	-
Other Direct Payments (in millions)	\$ 21.1 ^a	\$ 0.2	\$103.8	-	\$3.0
Reimbursement Payments to Parents and Guardians (in millions)	\$ 19.9 ^b	\$ 4.4	\$ 52.5	-	\$0.4
Transportation Payments (in millions)	\$ 1.4	\$ 2.9	-	-	-
Total Amounts Disbursed (in millions)	<u>\$730.4</u>	<u>\$578.3</u>	<u>\$525.1</u>	<u>\$3.9</u>	<u>\$3.4</u>

^a Direct payments include \$20.9 million for PEP direct vendor payments.

^b Reimbursement payments include \$19.6 million for PEP reimbursements.

Source: Step Up records.

²² Section 1002.411(2), Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding 1: Untimely Tuition and Transportation Payments

For FES-EO Program tuition payments, State rules²³ require Step Up to initiate an FES-EO Program payment to a participating private school within 14 days following the receipt of payment from the FDOE to Step Up. However, State rules do not specify when Step Up is to initiate FES-EO Program transportation payments. Further, State law and State rules do not specify timelines for FTC Scholarship tuition or transportation payments. Notwithstanding, Step Up should promptly make FTC Scholarship and FES-EO Program payments for private school tuition and transportation services to maintain confidence in the scholarship programs and avoid causing financial hardship to parents and schools.

FTC Scholarship and FES-EO Program tuition charges are invoiced by the private school through the Step Up online application system, Education Market Assistant (EMA), and paid electronically via an Automated Clearing House (ACH) payment system. In contrast, Step Up personnel manually process transportation payments after receiving a completed parental e-mail transportation survey and approving an application for payment.

To test timeliness of FTC Scholarship payments and FES-EO Program private school tuition payments we selected for examination 27 FTC Scholarship payments totaling \$41,027 and 11 FES-EO Program payments totaling \$23,925 from the 535,932 and 139,287 FTC Scholarship and FES-EO Program private school tuition payments totaling \$688.0 million and \$570.8 million, respectively, during the period July 1, 2023, through March 31, 2024.²⁴ Our examination disclosed:

- 3 FTC Scholarship tuition payments for \$1,960, \$1,857, and \$2,045 processed 15, 35, and 35 days after receipt of the payment request.
- 1 FES-EO Program tuition payment for \$1,869 that was processed 35 days after the payment request, which exceeded the 14-days prescribed by State rules by 21 days.

Step Up management explained that these delays resulted from invoice processing delays due to manual entry of information into the ACH payment system and insufficient server processing power.

We also examined 1 FTC Scholarship and 2 FES-EO Program transportation payments totaling \$423 and \$2,232, respectively, selected from the population of 2,718 FTC Scholarship and 4,484 FES-EO Program transportation payments totaling \$1.4 million and \$2.9 million, respectively, for timeliness.²⁵ Our comparison of the payment dates to the parent transportation survey completion dates disclosed that the transportation payments were made 80, 76, and 76 days after Step Up had received the parent's transportation survey. Step Up management explained that these delays were a result of

²³ State Board of Education Rule 6A-6.0952, Florida Administrative Code, *Family Empowerment Scholarship Program*.

²⁴ Although State law and State rules do not include deadlines for FTC Scholarship Program tuition payments, the program eligibility requirements and allowable uses are the same as those of the FES-EO Program; consequently, we considered 14 days to be an appropriate measure of timeliness for both FES-EO and FTC Scholarship Program tuition payments.

²⁵ Although there is no statute or rule that specifically addresses a timeline for transportation payments, because parents are paid directly, we considered the 60-day timeline established by Step Up's *FTC and FES-EO Parent Handbook* to be an appropriate measure of timeliness for FTC and FES-EO transportation payments.

workload issues for certain operational personnel and that delays were not uncommon for transportation payments.

Delays in processing private school tuition and transportation payments may result in students, parents, and schools losing confidence in the scholarship programs and may cause parents and schools to experience financial hardship.

Recommendation: Step Up should process FES-EO Program private school tuition payments within 14 days of receiving funding from the FDOE, in accordance with State rules. Additionally, Step Up should expedite the manual entry process, increase computer processing capacity, and take other actions, as appropriate, to ensure FES-EO transportation and FTC Scholarship Program private school tuition and transportation payments are promptly processed.

Finding 2: Untimely Scholarship Reimbursements

Step Up processes FTC Scholarship, FES-EO Program, and FES-UA Program reimbursements to parents and guardians for educational purposes as defined by State law²⁶ through the EMA. Parents and guardians upload the required documentation and request reimbursement. Although State law and State rules do not specify deadlines for such reimbursements, Step Up's *Florida Choice Scholarships Family Empowerment Scholarship For Educational Options Florida Tax Credit Scholarship Program Personalized Education Parent/Guardian Handbook (FTC and FES-EO Parent Handbook)* states that reimbursements will be processed in 60 days. During the period July 2023 to March 2024, parents requested 449,672 reimbursements totaling \$76.7 million.

To determine the timeliness of reimbursements to parents and guardians, we examined 69 selected FTC Scholarship, FES-EO, and FES-UA Program reimbursements totaling \$54,048 during the period July 2023 through March 31, 2024. Although the 19 FES-UA Program reimbursements were processed within 60 days, 8 of the FTC Scholarship and FES-EO Program reimbursements totaling \$8,659 were paid from 62 and 138 days, an average of 90 days, after the EMA reimbursement request. According to Step Up personnel, these delays were caused by backlogs due to information technology delays and overall personnel workload issues.

Delays in reimbursements could cause the parents and guardians of scholarship participants to experience financial hardships and lose confidence in the programs.

Recommendation: Step Up should take appropriate steps to resolve the information technology delays and workload issues to ensure timely processing of FTC Scholarship and FES-EO Program reimbursements within 60 days as required by the *FTC and FES-EO Parent Handbook*.

Finding 3: FES-UA Program Eligibility Priority

During the period July 2023 through March 31, 2024, Step Up awarded and funded FES-UA Program scholarships totaling \$353.2 million to 96,660 FES-UA Program student accounts. Per State law,²⁷ Step

²⁶ Sections 1002.394(11)(a)6. and 1002.395(6)(d)4.b.-h., Florida Statutes.

²⁷ Section 1002.394(11)(b)3.b.-d., Florida Statutes.

Up must give FES-UA Program scholarship priority to renewing students and to students retained on the previous fiscal year's wait list prior to awarding scholarships to new students.

According to Step Up personnel, priority was generally given to renewing students for FES-UA Program applications. However, our examination of applications processed in May 2023 for the 2023-24 fiscal year disclosed that new student applications were processed concurrently with renewing student applications for FES-UA Program applicants. In response to our further inquiries, Step Up personnel indicated that, to more efficiently process applications, they processed applications on a first-come, first-served basis, although they did use a process for monitoring the FES-UA Program student application progress, which consists of worksheets with estimated new and renewal applications processed to-date and estimated new and renewal applications that have not yet been received in an effort to ensure that there will be enough scholarships available for renewing students.

Notwithstanding, although scholarships for all 2023-24 fiscal year applicants were ultimately funded, for fiscal years in which FES-UA Program appropriations are insufficient to provide scholarships to all applicants, incorrect priority in scholarship eligibility may result in new FES-UA Program students receiving funding instead of renewing students and students retained from the previous school year's wait list.

Recommendation: We recommend that Step Up establish policies and procedures to ensure that student applications are prioritized based on renewal and wait list status for FES-UA Program students in accordance with State law.

Finding 4: FTC Scholarship and FES-EO Program Student Account Interest Allocation

Per State law, Step Up must establish and maintain separate scholarship accounts for each eligible student participating in the FTC Scholarship²⁸ and FES-EO²⁹ and FES-UA³⁰ Programs and maintain a record of accrued interest that is retained in the student's account and available only for authorized program expenditures.

Step Up records demonstrate that a record of accrued interest was retained in the FES-UA Program student accounts. However, although Step Up records indicate that approximately \$4.9 million and \$4.8 million in interest was earned on FTC Scholarship and FES-EO Programs moneys, respectively, during the period July 1, 2023, through June 30, 2024, Step Up did not maintain a record of the accrued interest to be retained in each student FTC Scholarship or FES-EO Program account for the 2023-24 fiscal year. In response to our inquiries in July 2024, Step Up personnel explained that interest was not allocated to FTC Scholarship and FES-EO Program student accounts as Step Up's priority was student scholarship funding and scholarship payments and indicated that interest would be allocated to student accounts in the future.

²⁸ Section 1002.395(6)(d)4., Florida Statutes.

²⁹ Section 1002.394(11)(a)5. and (12)(b)9., Florida Statutes.

³⁰ Section 1002.394(11)(b)4., Florida Statutes.

Absent the maintenance of a record of accrued interest in each student's account, students have less funds available for authorized program expenditures and Step Up cannot demonstrate compliance with State law.

Recommendation: Step Up should establish controls and procedures to ensure that interest is applied to student FTC Scholarship and FES-EO student accounts in accordance with State law.

Finding 5: FES-UA Student Account Balance Limits

Per State law,³¹ an organization may not transfer any FES-UA Program funds to an account of an eligible student which has a balance in excess of \$50,000. We reviewed FES-UA Program student accounts funded over the 4 quarters of the 2023-24 school year, which ended July 8, 2024. According to Step Up records, Step Up had transferred funds to 267 student accounts with balances exceeding \$50,000 and totaling approximately \$2.1 million. In response to our inquiry, Step Up personnel explained that it was their understanding that the FDOE was responsible for limiting funds to student accounts, not Step Up. Notwithstanding, as a scholarship-funding organization,³² State law clearly assigns the responsibility to Step Up.

The funding of some student accounts in excess of the prescribed limit may result in loss of scholarship funding for other students participating in the FES-UA Program.

Recommendation: Step Up should establish policies and procedures to prevent transfers of FES-UA Program moneys that would cause student account balances to exceed the \$50,000 limit provided in State law.

Finding 6: Reversion of FES-UA Program Funds

Per State law,³³ FES-UA Program student accounts must be closed by Step Up and remaining funds reverted to the State after any period of 3 years after high school completion or graduation during which the student has not been enrolled in an eligible postsecondary educational institution or program offered by the institution, or 2 consecutive fiscal years in which an account has been inactive

Our examination of Step Up records did not disclose any student accounts that had been inactive for 2 or more consecutive years. However, according to Step Up personnel, they did not monitor accounts of students who graduated from or otherwise completed high school to verify that, after 3 years, the students had enrolled in an eligible postsecondary educational institution. When asked, Step Up personnel initially responded that they did not believe that monitoring high school graduation and completion was an SFO responsibility. Notwithstanding, while State law does not specifically state that an SFO is responsible for monitoring high school graduation and completion dates for accounts potentially subject to reversion to the State, insofar as Step Up manages student FES-UA Program scholarship accounts, Step Up is in the best position to monitor student account activity. Subsequent to

³¹ Section 1002.394(12)(b)11., Florida Statutes.

³² Section 1002.394(2)(f), Florida Statutes, provides that, for the FES Program, an "eligible nonprofit scholarship-funding organization" or "organization" has the same meaning as in Section 1002.395(2), Florida Statutes, which defines "organization" as an eligible nonprofit scholarship-funding organization.

³³ Section 1002.394(5)(b)3.b., Florida Statutes.

our inquiries, Step Up personnel stated that a process would be developed in future fiscal years to ensure compliance with this statutory requirement.

Due to the insufficiency of Step Up records regarding high school graduation and completion dates, it was not practicable for us to determine the number of accounts for students who had graduated or completed high school and not enrolled in an eligible postsecondary educational institution within 3 years. Absent procedures to monitor the accounts of FES-UA Program high school graduates, Step Up cannot ensure or demonstrate compliance with State law requiring that applicable accounts be closed and the funds reverted to the State.

Recommendation: Step Up should expedite efforts to develop procedures to monitor the accounts of FES-UA Program high school graduates and ensure that the accounts of students who do not attend an eligible post-secondary educational institution within 3 years of graduation are closed and any unused funds are promptly returned to the FDOE.

PRIOR AUDIT FOLLOW-UP

Step Up management had fully taken corrective action for the finding in our report No. 2022-072.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities and selected non-governmental entities specified by State law to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2024 to November 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of Step Up for Students – Florida, Inc. focused on selected administrative activities and management's performance related to the Florida Tax Credit Scholarship (FTC Scholarship) and Family Empowerment Scholarship (FES) Programs, including Step Up's compliance with applicable laws and rules.

For those areas addressed by this audit, our objectives were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, including applicable provisions of Sections 1002.394 and 1002.395, Florida Statutes; rules; regulations; contracts; grant agreements; and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.

- Determine whether management had corrected, or was in the process of correcting, the deficiency disclosed in our report No. 2022-072.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives, instances of noncompliance with applicable governing laws, rules, contracts, grant agreements and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of July 2023 through March 2024, and selected Step Up actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable laws, rules, Step Up policies and procedures, and other guidelines, and interviewed Step Up personnel to gain an understanding of the applicable requirements and Step Up scholarship-related operations and evaluate the adequacy of Step Up operations.
- Obtained an understanding of Step Up's internal controls and evaluated the effectiveness of key FTC Scholarship Program, FES Program processes, policies, and procedures for ensuring compliance with significant governing laws, economic and efficient operations, reliability of records and reports, and the safeguarding of assets.
- Evaluated Step Up information technology security policies and procedures governing the classification, management, and protection of sensitive and confidential information, including student SSNs.
- Examined Step Up records supporting the eligibility of 30 selected students from the 148,277 student FTC Scholarship Program accounts with disbursements totaling \$730.4 million during the audit period to determine whether Step Up documented that the students were eligible to participate in the FTC Scholarship Program pursuant to Section 1002.395(6)(l)3., Florida Statutes.

- From the \$730.4 million of FTC scholarship disbursements from 148,277 scholarship accounts during the period July 2023 through March 2024, examined documentation for 30 selected disbursements totaling \$40,559 to determine whether the disbursements were allowable pursuant to Section 1002.395(6), Florida Statutes.
- Reviewed Step Up's records to determine whether Step Up complied with the carryforward limitations on unexpended 2022-23 fiscal year FTC Scholarship Program moneys carried forward into the 2023-24 fiscal year pursuant to Section 1002.395(6)(l)2., Florida Statutes.
- Selected 20 direct tuition payments from the 539,250 payments totaling \$688.3 million to students receiving FTC Scholarships to attend private schools during the audit period, to determine whether Step Up maintained records demonstrating that the school verified the student's attendance for each period covered by the scholarship payment in accordance with Section 1002.395(11)(c), Florida Statutes.
- Selected 10 students with payments totaling \$30,474 from the 388,981 payment transactions totaling \$40.5 million to students participating in the FTC Scholarship Program as a Personalized Education Student (PEP) during the audit period, to determine whether Step Up maintained signed agreements from the parents regarding parental compliance with the attendance requirements; received eligible student test scores; and provided parents with information, guidance, and support to create and annually update a student learning plan for their student pursuant to Section 1002.395(6)(e)1.-4., Florida Statutes.
- Selected 30 students from the 148,277 receiving FTC Scholarship payments totaling \$730.4 million during the audit period to determine whether Step Up promptly approved applications in accordance with timelines established within the *Step Up FTC and FES-EO Parent Handbook*.
- Selected 30 FTC Scholarship Program payments from the population of 742,990 payments totaling \$710.5 million (\$688.0 million private school tuition, \$21.1 million direct vendor, and \$1.4 million to parents for transportation) made during the audit period to determine whether Step Up timely or promptly, as applicable, paid the school, vendor, or parents.
- Examined 30 FTC Scholarship Program payments totaling \$3,492 to reimburse parents for out-of-pocket expenses from the population of 187,975 reimbursement payments totaling \$19.8 million during the audit period to determine whether Step Up paid the reimbursement no later than 60 days after request for reimbursement in accordance with the *Step Up FTC and FES-EO Parent Handbook*.
- Examined 40 student applications for the 2023-24 school year to determine whether Step Up prioritized FTC Scholarship applications in accordance with Section 1002.395(3)(b)1. and 2., Florida Statutes.
- Evaluated the adequacy of Step Up policies and procedures to ensure that:
 - In accordance with Section 1002.395(6)(i), Florida Statutes, FTC Scholarship awards were not restricted or reserved for specific schools and that no scholarships were provided to the child of an owner or operator of Step Up.
 - Children in foster care, children in out of home care, or dependents of armed forces personnel could apply for an FTC Scholarship Program at any time pursuant to Section 1002.395(6)(j), Florida Statutes.
 - Step Up provides to the Florida Department of Education (FDOE), no later than 15 days after the last payment date of the school year, a summary of FTC Scholarships paid to each student during the last school year and the name of the school the Student attended in accordance with State Board of Education (SBE) Rule 6A-6.0960(2)(c), Florida Administrative Code.

- From the population of \$578.3 million of FES-EO Program disbursements during the audit period on behalf of 142,871 students, examined records for 15 selected students to determine whether Step Up records demonstrated that the students were eligible to participate in the program pursuant to Section 1002.394(3)(a), Florida Statutes.
- From a population of \$525.1 million disbursements made during the audit period for the FES-UA Program for 81,147 students examined records for 15 selected students to determine whether Step Up records demonstrated that the students were eligible to participate in the program pursuant to Section 1002.394(3)(b), Florida Statutes.
- For the FTC Scholarship, FES-EO, and FES-UA Programs, determined whether Step Up had established separate scholarship accounts for each student and had maintained records of accrued interest pursuant to Sections 1002.395(6)(d)2., 1002.394(11)(a)4., and 1002.394(12)(b)8., Florida Statutes.
- From the population of 1,950 students participating in the FES-UA Program and 312 students participating in the FES-EO Program and identified by the FDOE as also potentially attending public schools, selected 15 students for each program and examined the applicable Step Up records to determine whether Step Up appropriately responded to the FDOE's concerns and returned any unexpended scholarship funds to the FDOE pursuant to Section 1002.394(6)(b), Florida Statutes.
- From the population of 81,147 and 142,871 students with FES-UA and FES-EO Program active accounts with disbursements totaling \$525.1 and \$578.3 million, respectively, examined documentation for 30 selected students (15 students for each program) to determine whether Step Up records evidenced that program funds were used for allowable FES Program uses pursuant to Section 1002.394(4), Florida Statutes.
- From the population of 81,147 and 142,871 students in the FES-UA and FES-EO Program active accounts with disbursements, totaling \$525.1 and \$578.3 million, respectively, examined records for 30 selected students (15 students for each program) to determine whether Step Up approved student applications in accordance with timelines established by the *Step Up FES-UA Parent Handbook*.
- Selected 15 FES-UA Program and 15 FES-EO Program payments from the population of 1.3 million and 449,439 payments totaling \$472.5 and \$573.9 million, respectively, to determine whether Step Up timely paid school tuition, vendor payments, and transportation payments in accordance with timelines established by SBE Rule 6A-6.0952(6)(b)2, Florida Administrative Code, and the *Step Up FTC and FES-EO Parent Handbook* and *Step Up FES-UA Parent Handbook*.
- Selected 15 of the 257,096 FES-UA Program payments and 19 of the 4,601 FES-EO Program payments totaling \$52.5 million and \$4.4 million, respectively, made to reimburse parents and guardians for services and goods to determine whether Step Up timely or promptly, as applicable, made the payments in accordance with SBE Rule 6A-6.0952(6)(b)2., Florida Administrative Code or *Step Up FTC and FES-EO Parent Handbook* and *Step Up FES-UA Parent Handbook*, as applicable.
- From the populations of 81,147 payments totaling \$525.1 million and 142,871 payments totaling \$578.3 for students in the FES-UA, and FES-EO programs, respectively, examined records for 30 selected students (15 students for each program) to determine whether Step Up made awards to students in a priority order pursuant to Section 1002.394(3)(a) and (b) and (11)(a) and (b), Florida Statutes.
- Evaluated the adequacy and sufficiency of Step Up's policies and procedures for:
 - Establishing a date by which a parent or guardian must confirm initial or continuing participation in the FES-UA or FES-EO Program and re-establish eligibility if they miss the

- deadline. Also, verified that Step Up sent the FDOE a list, by July 1, 2023, of all renewing students in accordance with SBE Rule 6A-6.0952(3)(b), Florida Administration Code.
- Closing scholarship accounts and notifying the FDOE, pursuant to Section 1002.395(5)(b)3., Florida Statutes, when the student graduated high school and did not attend an eligible Florida post-secondary educational institution within 3 years, the student graduated from a post-secondary institution, or there has been no expenditure activity in the account for 2 years.
 - Notifying parents of FES-UA Program students, pursuant to Section 1002.394(11)(b)7., Florida Statutes, about the requirement to request an initial Individual Education Plan (IEP) or IEP evaluation every 3 years.
 - For the period October 2023 through April 2024, determined whether Step Up submitted to the FDOE quarterly FES-UA reports, which included, at minimum, the number of participating students, their demographics, disability information, matrix level of service information, and their award and expenditure amounts in accordance with SBE Rule 6A-6.0952(6)(c), Florida Administrative Code.
 - Examined Step Up records to determine whether Step Up was eligible to use FTC Scholarship Program, FES Program, Hope Scholarship Program, and New Worlds Scholarship Accounts moneys for allowable administrative expenses during the 2023-24 fiscal year, pursuant to Sections 1002.395(6)(l) and 1002.394(6)(a)6., Florida Statutes.
 - For the 2022-23 fiscal year, the most recently completed fiscal year at the time of audit fieldwork, determined whether administrative costs of \$53.5 million allocated by Step up to the FTC Scholarship, FES, Hope Scholarship, and New Worlds Scholarship Programs did not exceed the limitation of 3 percent of the total funded amount of all programs, pursuant to Section 1002.395(6)(l)1., Florida Statutes. In addition, determined whether Step Up expended no more than 2.5 percent of the 3 percent administrative cost limitation for FES Program administrative purposes pursuant to Section 1002.394(11)(c), Florida Statutes.
 - From the population of administrative expenses totaling \$54.4 million for all scholarship programs during the period July 2023 through March 2024, examined Step Up records supporting 30 selected expenses totaling \$1.3 million to determine whether the expenses complied with the requirements of Sections 1002.395(6)(l) and 1002.394(6)(a)6., Florida Statutes.
 - Determined whether Step Up charged an application fee for scholarship applications, contrary to Section 1002.395(6)(l)1., Florida Statutes.
 - Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
 - Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
 - Obtained management's views concerning the conclusions in this audit report, prepared a summary of management's comments, and provided a copy of the summary to management to verify that the comments were accurately represented. In addition, we included the summary of management's response in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45(2)(l), Florida Statutes, requires the Auditor General, at least once every 3 years, to conduct an operational audit of the accounts and records of eligible nonprofit scholarship-funding organizations receiving eligible contributions under Section 1002.395, Florida Statutes, including any contracts for

services with related entities. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



April 3, 2025

Ms. Sherrill F. Norman
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Response to Preliminary and Tentative Findings

Dear Ms. Norman,

Enclosed is our response to the preliminary and tentative audit findings and recommendations that we received on March 4, 2025.

The Auditor General's report covers a unique period of historic growth and opportunity in Florida's education choice scholarship programs that occurred in a compressed time. Despite the administrative challenges this presented, Step Up is proud to have used this knowledge to make major improvements in its processes and technology to deliver a superior experience for our scholarship families, schools, and providers, and we continue to explore ways to serve them better.

We appreciate the professionalism and collegiality of your staff, and our continual process improvement efforts are strengthened by their feedback and recommendations.

If you have any questions regarding our responses, please do not hesitate to contact us.

Sincerely,

Signed by:

AFC81F5DF1844B3...
Gretchen Schoenhaar
Chief Executive Officer
Step Up For Students

Cc: Board Members

www.StepUpForStudents.org
1901 Ulmerton Road, Suite 180 • Clearwater, FL 33762
4655 Salisbury Road, Suite 400 • Jacksonville, FL 32256

***Finding 1:** Step Up did not timely process Family Empowerment Scholarship for Educational Options (FES-EO) Program private school tuition payments in accordance with State rules. In addition, Step Up did not promptly process FTC Scholarship private school tuition payments or transportation payments for either the FES-EO or FTC Scholarship Program.*

Increasing the speed and accuracy of payments has been Step Up’s top operational priority. We have made substantial progress since the period covered by this audit.

In March 2023, the Florida Legislature passed HB1, making every K-12 student eligible for an education savings account (ESA). Step Up For Students (SUFS) had approximately 60 days to prepare before application season opened on May 15, 2023. The number of students served by the programs SUFS manages grew from approximately 258,000 to over 420,000 from May 2023 to August 2023.

The period covered by the Auditor General audit — July 2023 to March 2024 — was the most challenging period of this rapid growth in terms of technology and processes. This year, after introducing numerous operational improvements, SUFS is serving a record half a million Florida scholarship families with increased excellence and efficiency. Many of these necessary improvements to our processes, technology and teams address the recommendations in this report and have resulted in substantial increases in the speed with which we process payments to schools, families, and education service providers.

Regarding the Auditor General’s recommendation that SUFS process tuition payments “within 14 days of receiving funds from the FDOE,” some steps of the process necessary to issue a tuition payment depend on actions by parents and schools that SUFS does not directly control. However, we have made substantial improvements to the stages of the process that are within our control.

SUFS receives funds from the FDOE, then, after conducting confirmations on the funding file, SUFS deposits funds into student accounts. This is already done well within 14 days, usually in less than seven days. The process of depositing funds into student accounts automatically generates a tuition invoice, which then must be approved first by the school and then by the parent or guardian. SUFS has no control over when schools and families approve invoices. Only when the invoice is approved by both parties can SUFS make a payment.

In the 2023-24 school year SUFS onboarded over 2,300 private schools to its payments platform and made 1.8 million individual tuition payments to these schools, with an average time to pay of 8.2 calendar days after receipt of approved invoice.

In April 2024, SUFS hired a new Chief Executive Officer, Gretchen Schoenhaar, who has extensive experience in the global financial and technology industries that is relevant to administering ESA programs. She in turn assembled a leadership team with similar backgrounds and prioritized improvements in payment processing.

For the 2024-25 school year, as of March 11, 2025, 99.8% of 1,047,552 quarter one, quarter two, and quarter three school invoices were paid, with those unpaid well under the statutory deadline of seven business days. So far this school year the average time from parent and school approval to payment is 4.8 business days.

Finding 2: Step Up did not promptly process parent and guardian reimbursement requests for the FTC Scholarship and FES-EO Program in accordance with Step Up policies.

We appreciate the importance of this issue. We have already implemented the Auditor General’s recommendations, and further improvements continue.

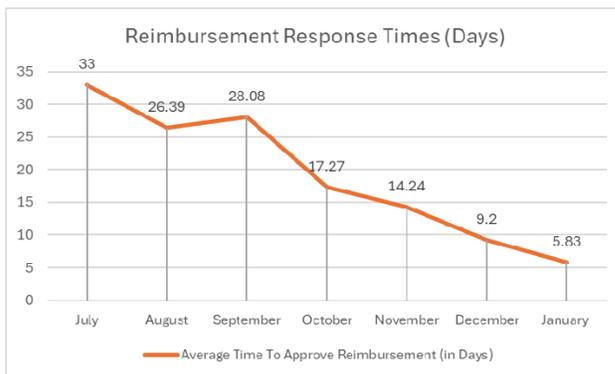
Under Florida’s scholarship programs, families may use funds for approved educational goods and services other than tuition, something families of Unique Abilities students have been doing for years. HB1 created a new scholarship program, the Personalized Education Program (PEP), for families who do not wish to enroll their children full time in a private or public school, and these families primarily purchase things other than tuition.

SUFS created an e-commerce website where families can purchase pre-approved items using funds directly from their ESA accounts. SUFS’s e-commerce site did over 1 million transactions during the 2023-2024 school year and will do over 2 million transactions during the 2024-2025 school year.

Families can also purchase eligible items and services with their own funds and ask to be reimbursed. Families must submit documentation to SUFS, and SUFS must determine if the expense qualifies to be reimbursed. This process can be very labor intensive.

The beginning of 2023-24 saw an extremely large influx of reimbursement requests. SUFS received over 1 million reimbursement requests during the 2023-24 school year, an average of over 31,000 requests per week.

SUFS under Gretchen Schoenhaar’s leadership has achieved significant operational improvements to manage this extraordinary volume. SUFS is also using artificial intelligence, machine learning and optical character recognition to assist our teams in achieving major efficiencies in the reimbursement process. For example, the average time to approve a reimbursement has dropped from 28 days in September 2024 to six days in January 2025.



In the 2024-25 school year, Step Up is processing 11,000 reimbursements a day across all scholarship programs and anticipates processing more than 2 million reimbursements total.

The Florida Department of Education requires SFOs to process reimbursements for the FES-UA scholarship in 60 days or less. Step Up strives to meet the 60-day requirement for all scholarship programs even though it is not required. As of February 6, 2025, the percentage of reimbursements that

were processed in over 60 days was .97%. The percentage of reimbursements between 30 and 60 days was 2.51%.

***Finding 3:** Contrary to State law, Step Up did not prioritize student application processing by renewal status for Family Empowerment Scholarship for Students with Unique Abilities (FES-UA) Program students.*

All eligible renewal students who applied for an FES-UA scholarship for the 2023-24 school year received the scholarship. Step Up's application is designed to prioritize students who are renewing their scholarships, as the law requires, while also ensuring we process all applications efficiently.

Each application season, Step Up first notifies families of currently funded students that the application season is opening to ensure they have the opportunity to renew their children's scholarship before the application is made available to the public. For example, in the 2023-24 school year, communication with currently funded FES-UA families informing them that the application is available began on May 2. Messaging to prospective scholarship families who were on an interest list did not begin until May 15.

As applications are received, they are queued for processing daily. SUFS places applications for renewal students first in the processing queue, ahead of those with only new students. SUFS employed this daily queuing methodology, but did not wait to process new scholarship students' applications, because delaying awards for new applicants until all eligible renewal students had been awarded would create a hardship for new families making education decisions for their children.

To ensure that all eligible renewal students were able to receive FES-UA scholarships, SUFS continuously monitored FES-UA awards, reserving sufficient spots under the state's program cap to accommodate all eligible students that wished to renew. SUFS also worked closely with the FDOE to determine new students with cap exceptions so that it knew which new students were taking spots under the program cap and which were not. SUFS continued this communication throughout the application season, increasing in frequency as relevant deadlines neared.

As the cap was approached, SUFS reserved scholarships for FES-UA renewal students and communicated to families of those students who had not yet applied, encouraging them to do so. At that time, SUFS also began placing new applicants for the FES-UA Program in an at-capacity status, which means that there were currently no available spots. In conjunction with the FDOE, SUFS set a deadline for FES-UA renewal students to apply, after which SUFS released available spots to new applicants on a first-come, first-served basis.

SUFS will thoroughly document this process for use in future years. SUFS believes that this process is the only practical way to ensure that renewal families have sufficient spots, while not impeding the overall process for new families.

***Finding 4:** Contrary to State law, Step Up did not allocate interest earnings to individual FTC Scholarship and FES-EO Program student accounts.*

The 2023-24 accrual of interest to student accounts for these programs has been completed. In total, approximately \$6.1 million was allocated to 270,730 student accounts, for an average of \$22.45 per student account.

All interest earned on scholarship funds is reserved for student scholarship accounts. SUFS does not retain or benefit from the interest earned on student accounts.

Prior to the 2023-24 school year, the FES-EO and FTC programs were scholarships solely for tuition and fee payments to private schools. Participants in those programs did not have accounts, therefore interest did not accrue. Due to the transition of the FES-EO and FTC programs to ESAs, the addition of the PEP ESA program in the 2023-24 school year and the short timeline for implementation, the ability for our system to tabulate interest at the student account level did not exist. However, interest did accrue on the total of all accounts.

SUFS has subsequently updated its system to tabulate interest at the student account level. Although the statute does not state a deadline for posting interest to student accounts, SUFS has developed a policy to accrue interest on student accounts for all programs quarterly, beginning in the 2024-25 school year.

***Finding 5:** Contrary to State law, Step Up continued to fund FES-UA Program student accounts that had balances exceeding \$50,000.*

This statutory requirement was created by HB1 and was new for the 2023-24 school year. Initially, there was uncertainty over how this would be implemented and by whom. SUFS' original understanding was it would not receive funding for students with balances exceeding \$50,000.

For the 2024-25 school year, SUFS has instituted a process to ensure compliance with this statutory requirement per SUFS' interpretation and will work with the FDOE to remediate the 23-24 school year issue while confirming our policy interpretation.

***Finding 6:** Step Up had not developed policies and procedures to ensure that, as required by State law, accounts are closed and unused funds are returned to the Florida Department of Education when FES-UA Program students do not attend an eligible post-secondary educational institution within 3 years of high school graduation.*

Upon completion of high school or graduation, FES-UA students are required to be enrolled in an eligible postsecondary educational institution, or a program offered by the institution, at least once over a three-year period. Failure to do so may result in the closure and return of student accounts.

We are developing a process to verify students' continued enrollment in post-secondary institutions and close the accounts of students who do not complete the verification process.