



**Office of Inspector General**  
**Florida State Scholarship Programs Administered by the Office of Independent  
Education and Parental Choice (IEPC)**

**Report #A-1718-007**

**January 2019**

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**Executive Summary**

In accordance with the Department of Education’s fiscal year (FY) 2017-2018 audit plan, the Office of Inspector General (OIG) conducted an audit of the State Scholarships program, administered by the Office of Independent Education and Parental Choice (IEPC). The purpose of this audit was to determine whether IEPC effectively monitors the scholarship programs to reduce the risk of duplicate payments and determine whether appropriate action is taken by Scholarship Funding Organizations (SFOs) upon notification of students enrolled in public schools while receiving scholarships.

During this audit we noted that IEPC is meeting the statutory requirements to conduct cross checks to identify participating scholarship students enrolled in public schools or receiving other educational scholarships to avoid duplication of payment. IEPC also notified the SFOs of the identified students. We additionally noted the SFOs took action upon notification of students enrolled in public schools while receiving scholarships. However, there were instances where IEPC did not effectively identify all FTC scholarship recipients in the public school cross checks and private schools received FTC scholarship funds for students reportedly attending public schools. We additionally observed that the SFOs do not utilize all available state agency data for eligibility determinations. The Audit Results section below provides details of the instances noted during our audit.

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**Scope, Objectives, and Methodology**

The scope of this audit included an examination of monitoring activities conducted by the department’s Office of Independent Education and Parental Choice (IEPC) from July 1, 2015, to June 30, 2017. We established the following objectives for our audit:

1. Determining whether IEPC has sufficient internal controls in place to identify participating scholarship students enrolled in public schools or receiving other educational scholarships to avoid duplication of payment;
2. Determining whether IEPC notifies the Scholarship Funding Organizations (SFOs) of identified scholarship students enrolled in public schools or receiving other educational scholarships and whether appropriate action is taken; and,

3. Determining whether IEPC provides an efficient process to match the direct certification list with the scholarship application data submitted by the SFOs and whether the SFOs used information collected by state agencies to determine scholarship eligibility.

To accomplish our objectives we reviewed applicable laws, rules, and regulations; interviewed appropriate department staff; reviewed policies, procedures, and related documentation; evaluated IEPC's monitoring activities; and reviewed public school enrollment data.

## **Background**

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The Florida Department of Education, Office Independent Education & Parental Choice (IEPC) seeks to offer economically challenged and disabled students opportunities to further their education in non-traditional settings through the Florida Tax Credit, Gardiner, and McKay Scholarship programs. Scholarship Funding Organizations (SFOs) are responsible for the receipt and distribution of contributed funds to eligible students attending participating Florida private schools for the Florida Tax Credit and Gardiner scholarships. Step Up For Students (SUFS) and AAA Scholarship Foundation were the approved SFOs eligible to participate in the FTC Scholarship program for the 2015-2016 and 2016-2017 school years.

### Florida Tax Credit Scholarship

Pursuant to Florida Statutes (F.S.) Section 1002.395, the Florida Tax Credit (FTC) Scholarship Program was established to encourage private, voluntary contributions from corporate donors to non-profit SFOs that award scholarships to students from low-income families. Client eligibility for FTC is based on participation in the foster care or out-of-home placements system and for children in households below 185 percent of Federal Poverty Level (FPL). Beginning in FY 2016-2017, children in households below 260 percent of FPL also became eligible for FTC scholarships.

During the 2015-2016 school year, scholarships in the amount of \$418 million were awarded to 78,664 students enrolled in 1,602 participating Florida private schools. The maximum amount awarded per student was \$5,677. During the 2016-2017 school year, scholarships in the amount of \$536 million were awarded to 98,936 students enrolled in 1,773 participating Florida private schools. The maximum amount awarded per student increased to \$5,886. Over two-thirds of the students attending these schools were ethnic minorities, and over two-thirds of the schools were religious.<sup>1</sup>

### Gardiner Scholarship Program

Pursuant to F.S. Section 1002.385, the Gardiner Scholarship Program was established to provide the option for a parent to better meet the individual educational needs of his or her eligible child. The Gardiner Scholarship provides eligible students a scholarship that can be used to purchase approved services or products in order to design a customized educational program for the student. Scholarships can be used for specialized services such as speech or occupational therapy, instructional materials, tuition at an eligible private school, contributions to a college prepaid account and more. Eligibility for the Gardiner scholarship includes students ages 3 – 22

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<sup>1</sup> Florida Department of Education 2017 Fact Sheet – Florida Tax Credit Scholarship Program

with diagnoses that include but are not limited to: autism spectrum disorder, Muscular dystrophy, cerebral palsy, Down syndrome, spina bifida, Williams syndrome, intellectual disability, anaphylaxis, deaf, visually impaired, dual sensory impaired, traumatic brain injuries, and other rare diseases. Hospital and homebound students may also receive scholarships. Eligible students need an Individual Education Plan (IEP) from a Florida school district or a formal diagnosis from a licensed physician or psychologist.

The amount of a child's scholarship is dependent on a number of different factors, including grade level, county of residence, and a student's individual level of need. The average full scholarship amount is approximately \$10,000. The percentage of scholarship a student qualifies for depends on the date eligibility is confirmed by the scholarship funding organization.<sup>2</sup> For FY 2015-2016, the Department's Memorandum of Agreement (MOA) with Step Up for Students Inc. amounted to over \$46,350,000, and the MOA with AAA Scholarship Foundation amounted to \$55,000,000 for the Gardiner Scholarship program. For FY 2016-2017, the Department's Memorandum of Agreement (MOA) with Step Up for Students Inc. amounted to over \$70,077,080 and the MOA with AAA Scholarship Foundation amounted to \$73,336,000 for the Gardiner Scholarship program.

#### McKay Scholarship for Students with Disabilities Program

The McKay Scholarships for Students with Disabilities Program, originally created in 1999, provides scholarships for eligible students with disabilities to attend an eligible public or private school of their choice. Students with disabilities include K-12 students who are documented as having an intellectual disability; a speech or language impairment; a hearing impairment, including deafness; a visual impairment, including blindness; a dual sensory impairment; an orthopedic impairment; another health impairment; an emotional or behavioral disability; or a specific learning disability. Eligible students include students who have been issued an IEP or a 504 Accommodation Plan that is effective for more than six months. In addition, students must have been enrolled and reported for funding by a Florida school district the year prior to applying for a scholarship.

During the 2016-2017 school year, \$220.2 million was paid to scholarship program participants. The state calculated maximum scholarship amount for enrolled IEP students ranged from \$4,970 to \$24,096, averaging \$8,021. The average amount for students with a 504 plan was \$4,562.<sup>3</sup>

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<sup>2</sup> <http://www.fldoe.org/schools/school-choice/k-12-scholarship-programs/gardiner/>

<sup>3</sup> Florida Department of Education 2017 Fact Sheet – McKay Scholarship Program

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## Audit Results

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**Finding 1: IEPC completed the required cross-checks but did not identify all FTC scholarship recipients reported as enrolled in a public school.**

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Per Section 1002.395(9) (h) of the Florida Statutes, “The Department of Education shall cross-check the list of participating scholarship students with the public school enrollment lists to avoid duplication.”<sup>4</sup>

Step Up for Students (SUFS) and AAA Scholarship Foundation submit reports to IEPC identifying the students receiving the Florida Tax Credit (FTC) scholarship. To cross-check the list of participating scholarship students with the public school enrollment lists, IEPC staff compares the lists provided by the SFOs to the public school survey 2 & 3 preliminary records from the Education Data Warehouse. Survey period 2, which occurs in October, covers the first 90 days of the 180-day school year. Survey period 3, which occurs in February, covers the second 90 days of the 180-day school year. IEPC conducts the public school verification in December and April, respectively, using preliminary survey data. The IEPC crosschecks included exact matches of the following data elements from the K-12 Student Demographics file: Student Name, Parent Name, and Date of Birth. Upon completion of the cross-checks, IEPC staff sent the matches to the SFOs for further review and action.

For the 2015-2016 and 2016-2017 school years, IEPC did not identify any students receiving an FTC scholarship through the AAA Scholarship Foundation in the survey 2 and 3 public school records. During school year 2015-2016, IEPC identified 538 students receiving an FTC scholarship through SUFS in the survey 2 records and 575 students receiving an FTC scholarship through SUFS in the survey 3 public school records. During school year 2016-2017, IEPC identified 689 students receiving an FTC scholarship through SUFS in the survey 2 records and 259 students receiving an FTC scholarship through SUFS in the survey 3 public school records. IEPC notified SUFS upon identification of scholarship students enrolled in public schools.

In order to determine whether IEPC effectively identified all students reflected in the surveys, we collected the list of students receiving the FTC scholarship through SUFS and AAA Scholarship Foundation for the 2016-2017 school year. We then requested that the Department’s Bureau of PK-20 Education Reporting and Accessibility (PERA) identify the students in surveys 2 and 3 through the Education Data Warehouse (EDW). The standard EDW K20 matching process uses a comprehensive cascading set of 76 matching rules ordered by most to least stringent which are designed to systematically match a submitted cohort against the student identity vault using the most stringent criteria possible. Each record is passed through each rule and the first (most stringent) rule to successfully match to the vault is utilized to retrieve the K20 value for that record. Once a cohort was matched, the data with the matched K20 ID value was released to PERA for additional processing. To conduct the survey match, PERA defined enrollment as a student who had a student demographic record and matching student course record. The results of the PERA match are reflected in the tables below.

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<sup>4</sup> 2017 Florida Statutes

Step Up for Students:

<b>2016-2017 - Step Up for Students (SUFS)</b>	<b>Survey 2</b>	<b>Survey 3</b>
# of records IEPC sent to SUFS for review	689	259
# of records sent to SUFS also identified by PERA with a matching course record	157	254
# of records identified by PERA in the final survey data that were not identified by IEPC with a matching course record	421	243
# of records that should have been sent to SUFS	578	497

Adding the course record requirement to the matching criteria reduced the number of IEPC matches by over 500 students. Students with demographic records in survey 2 or 3 but no course record could include, but is not limited to, students receiving exceptional student education services from public schools but not attending a public school course. The 532 record difference does not indicate an error in matching by IEPC, but using the additional data available to PERA when conducting the matches can further refine the matching results. The additional 421 records identified by PERA were identified using advanced matching techniques that allow for the identification of matches that aren't exact matches but are substantially similar. Upon further review, we determined that the identified records are highly likely to be the same student. It should be noted that these matching records only indicate that further review is required by the SFOs to ensure the students are enrolled in the reported private school and should not be interpreted as conclusive identification of fraudulent activity.

Per SUFS staff, for students found in the 2016-2017 survey 2 cross-check, they reached out to the families and reviewed private school attendance verification provided by the private schools to SUFS. They requested that parents provide documentation in the form of public school withdrawal documents, clarification on Florida Virtual School enrollment, or an explanation of district services received by their child. Per SUFS staff, if SUFS records validated private school attendance, then no action would be taken. If records indicated overlap between a public and private school, then the private school would be invoiced for the overpayment.

AAA Foundation:

<b>2016-2017 - AAA Foundation</b>	<b>Survey 2</b>	<b>Survey 3</b>
# of records IEPC sent to AAA for review	0	0
# of records identified by PERA in the final survey data that were not identified by IEPC with a matching course record	10	7
# of records that should have been sent to AAA	10	7

Based on the PERA analysis, we determined the IEPC notifications to the SFOs did not include all FTC students that received scholarship funding while potentially attending public schools. We noted that IEPC utilized preliminary survey files to determine matches to be sent to the scholarship organizations. Due to the unavailability of the preliminary files, we were unable to recreate IEPC's original match and, as a result, analyzed the final survey data. Therefore, the

records identified may differ slightly. Further, the notification IEPC provided to SUFS contained students who were enrolled in public school, but did not have a course record. Providing lists to the SFOs that include students not taking courses at a public school creates unnecessary reviews for the SFOs and does not effectively identify the students and private schools where further review and corresponding action may be necessary.

In addition, when IEPC does not effectively identify all scholarship recipients appearing in the school surveys they are unable to alert the SFOs, and the SFOs do not have an opportunity to review the cases and take appropriate action against the private schools and students identified. This may result in private schools accepting undeserved scholarship funds and FTC eligible students not receiving needed scholarships. The potential for schools fraudulently accepting scholarship funding while students are attending public schools makes monitoring of the program critical. IEPC does not currently utilize available matching tools through EDW and PERA to effectively identify all the scholarship recipients appearing in public school surveys.

### ***Recommendation***

We recommend IEPC, in consultation with PERA, utilize enhanced methodologies to effectively identify students who are receiving scholarship funds while attending public schools. We also recommend IEPC, in addition to the demographic records currently used, add school enrollment records and course records when conducting the required cross-checks. This would increase the effectiveness of identifying students receiving scholarships while attending public school and could lead to the identification of private schools who may be fraudulently accepting scholarship funds. We additionally recommend IEPC and the SFOs utilize the Florida Education Identifier (FLEID) upon implementation of the rule. The use of the FLEID will enhance the effectiveness of identifying scholarship students in the public school records.

### ***IEPC Management Response***

IEPC began working on FLEID utilization in 2017 and now has a process in place. We will continue to work with PERA to ensure the process is robust. See Attachment A.

### ***SUFS Management Response***

See Attachment B.

### ***AAA Foundation Management Response***

See Attachment C.

## **Finding 2: Private Schools received FTC scholarship funds for students attending public schools.**

Per Section 1002.395(7) of the Florida Statutes, “Parent and Student Responsibilities for Program Participation:

- (a) The parent must select an eligible private school and apply for the admission of his or her child.
- (b) The parent must inform the child’s school district when the parent withdraws his or her child to attend an eligible private school.
- (c) Any student participating in the scholarship program must remain in attendance throughout the school year unless excused by the school for illness or other good cause.”

Per Section 1002.395(12) of the Florida Statutes, “Scholarship Amount and Payment.-  
(c) An eligible nonprofit scholarship-funding organization shall obtain verification from the private school of a student’s continued attendance at the school for each period covered by a scholarship payment.”

Section 1002.395(11), Florida Statutes provides that the Commissioner of Education may deny, suspend, or revoke a private school’s participation in the scholarship program if the commissioner determines that an owner or operator of a private school has exhibited a previous pattern of failure to comply with this section. Further, 1002.395 (11) (a), F.S. states that one of the factors the commissioner may consider includes whether an owner or operator fails to reimburse the Department of Education or a nonprofit SFO for scholarship funds improperly received or retained by a school.

In order to determine whether FTC scholarship recipients were attending public school while receiving a scholarship, we compared the list of students receiving the FTC scholarship through SUFS and AAA Scholarship Foundation during the 2015-2016 and 2016-2017 school years to the 2015-2016 survey 5 records and the 2016-2017 survey 2 and 3 records. We analyzed a list of FTC students whose data was also found in a public school student survey to determine the length of days the student attended a public school and the FTC scholarship amount awarded for both the 2015-2016 and 2016-2017 school years. The analysis is broken down by academic school year as follows:

#### 2015-2016 School Year

During the 2015-2016 School Year, AAA Scholarship Foundation awarded FTC scholarships to 453 students. We determined AAA Scholarship Foundation awarded over \$5,000 in FTC scholarship funds to three students who were marked as present in a public school ranging from 47 days to 165 days. Of the three students, two received the full \$5,677.00 award.

During the 2015-2016 School Year, SUFS awarded FTC scholarships to 78,211 students. We determined SUFS awarded over \$5,000 in FTC scholarship funds to 348 students who were marked as present in a public school for over 45 days while enrolled in the scholarship program. Of these 348 students, 294 received the full scholarship of \$5,677. One hundred-thirty five of the students were marked as present for at least 170 days of the school year.

#### 2016-2017 School Year

During the 2016-2017 School Year, AAA Scholarship Foundation awarded FTC scholarships to 1,036 students. We determined AAA Scholarship Foundation awarded over \$5,000 in FTC scholarship funds to five students who were marked as present in a public school from 47 to 178 days while enrolled in the scholarship program. Of the five students, three received the full \$5,886.00 award and were marked as present in a public school from 172 to 178 days.

During the 2016-2017 School Year, SUFS awarded FTC scholarships to 97,900 students. We determined Step Up for Students awarded over \$5,000 in FTC scholarship funds to 357 students who were marked as present in a public school between 46 and 188 days while enrolled in the scholarship program. Of these 357 students, 304 received the full scholarship amount of \$5,886.

One hundred-thirty five of the students attended a public school and were marked as present for at least 170 days of the school year.

In addition to identifying the students enrolled in the scholarship program while simultaneously enrolled in public school, we also conducted an analysis to identify private schools accepting full scholarship amounts while the students were marked as present in public schools. In the 2015-2016 school year, 42 private schools received full scholarship funds for at least two students, and 11 private schools received full scholarship funds for at least eight students, who were identified as attending public schools for 45 days or more.

In the 2016-2017 school year, 43 private schools received full scholarship funds for at least 2 students, and nine private schools received full scholarship funds for eight or more students who were identified as attending public schools for 45 days or more. We determined seven of the private schools received full scholarship funds for eight or more students attending public school in both 2015-2016 and 2016-2017.

### ***Recommendation***

As stated in the previous finding, we recommend IEPC consult with PERA to more effectively identify students receiving FTC scholarships while attending public schools. We additionally recommend IEPC, in consultation with the SFOs, identify and track private schools receiving scholarship funds whose students are identified through the public school cross-checks. This will allow IEPC to identify and consequently deny, suspend, or revoke a private school's participation in the scholarship program as deemed appropriate by the Commissioner.

### ***IEPC Management Response***

IPEC began working on FLEID utilization in 2017 and now has a process in place. We will continue to work with PERA to ensure the process is robust. IEPC has long worked with the SFO's and the Department of General Counsel to hold private schools accountable when there is evidence the school has violated an applicable law or rule. See Attachment A.

### ***SUFS Management Response***

See Attachment B.

### ***AAA Foundation Management Response***

See Attachment C.

### **Observation: SFOs do not utilize all available state agency data for eligibility determination.**

Per Section 1002.395(7) (g) of the Florida Statutes, "The parent shall authorize the nonprofit scholarship-funding organization to access information needed for income eligibility determination and verification held by other state or federal agencies, including the Department of Revenue, the Department of Children and Families, the Department of Education, the Department of Economic Opportunity, and the Agency for Health Care Administration". As the SFOs determine eligibility for FTC participation, the statute recommends the utilization of state agency data for calculating income and determining FTC eligibility. The agencies above collect

employment and income data the SFOs could utilize to calculate family income, which cannot exceed 260 percent of the federal poverty level per Section 1002.395 (3) (b), Florida Statutes.

While the statute provides SFOs access to state agency data with the parent's approval, we determined the SFOs are not using the income information from the Department of Revenue (DOR) and the Department of Economic Opportunity (DEO) to assist in eligibility determination. Per IEPC staff, the SFOs can access the DCF Direct Certification List, which is updated monthly. IEPC provides access to the list through a web service. The list assists SFOs in determining whether family income allows the applicants to be eligible for FTC scholarships. Per SUFS staff, around 50 percent of FTC clients are on the DCF Direct Certification List or on Food Stamps making them eligible for the program based on their income.

We conducted a random sample of 30 clients for the 2015-2016 school year and 30 clients for the 2016-2017 school year from SUFS and the AAA Scholarship Foundation. We requested income data for each sampled household from DOR and DEO to determine the value the additional income information could provide to the SFOs. Due to the lack of an agreement between our office and the agencies contacted, we were unable to receive the requested income documentation necessary to conduct the analysis.

Absent the inclusion of certain types of household income during eligibility determination, household income for some FTC clients may not accurately reflect income that drives eligibility determinations. Elements of household income collected include household data from all persons in the house, child support payments, or unemployment compensation. Hence, the SFOs may underutilize state agency data that could more accurately drive eligibility determination decisions. This may result in client eligibility determinations that provide FTC scholarships to ineligible students and families based on federal poverty levels. In turn, this could result in other eligible students being denied requested FTC scholarships.

The Auditor General conducted an operational audit of SUFS and released Report #2019-012 in August 2018. The report included a finding that "Step Up did not always properly evaluate the household income of FTC Program scholarship applicants to ensure that scholarships were only awarded to eligible students." They further recommended that Step Up should enhance procedures to properly determine household income and ensure that FTC Program scholarships are only awarded to eligible students in the appropriate amounts. Utilizing the income information collected by the state agencies may assist the SFOs to more accurately determine income eligibility and ensure reported income is factual.

### ***Recommendation***

We recommend that AAA Scholarship Foundation and SUFS engage the appropriate state agencies regarding the utilization of income and employment data to better determine eligibility through all available income sources.

### ***SUFS Management Response***

See Attachment B.

**AAA Foundation Management Response**

See Attachment C.

**Closing Comments**

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The Office of the Inspector General would like to recognize and acknowledge the Office of Independent Education and Parental Choice staff, the PK-20 Education and Reporting Accountability staff, Education Data Warehouse staff, AAA Scholarship Foundation, and Step Up for Students Inc., for their assistance during the course of this audit. Our fieldwork was facilitated by the cooperation and assistance extended by all personnel involved.

*To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our audit was conducted under the authority of section 20.055, F.S., and in accordance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The audit was conducted by Jim Russell and supervised by Tiffany Hurst, CIA, Audit Director.*

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