

# STATE OF FLORIDA AUDITOR GENERAL

## Operational Audit

Report No. 2017-031  
October 2016

### STEP UP FOR STUDENTS, INC.



Sherrill F. Norman, CPA  
Auditor General

### **President and Board of Directors**

During the period March 2015 through February 2016, Mr. Doug Tuthill served as President for Step Up For Students, Inc., and the following individuals served as Members of the Board of Directors:

John Kirtley, Chair  
Julio Fuentes  
Allison Hertog  
Patricia Levesque to April 23, 2015 <sup>a</sup>  
Alfred "Al" Lawson, Jr.  
Richard Outram  
Paul Sherman  
Curtis Stokes

<sup>a</sup> Board member position remained vacant from April 24, 2015, through February 29, 2016.

The team leader was Donald D. Hemmingway, CPA, and the audit was supervised by Derek H. Noonan, CPA.

Please address inquiries regarding this report to Michael J. Gomez, CPA, Audit Manager, by e-mail at [mikegomez@aud.state.fl.us](mailto:mikegomez@aud.state.fl.us) or by telephone at (850) 412-2881.

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**State of Florida Auditor General**

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# STEP UP FOR STUDENTS, INC.

## SUMMARY

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This operational audit of Step Up For Students, Inc. (Step Up) focused on selected administrative activities and management's performance related to the Florida Tax Credit Scholarship (FTC) and Florida Personal Learning Scholarship Accounts (PLSA)<sup>1</sup> Programs, including Step Up's compliance with applicable laws and rules, and included follow-up on the findings noted in our report No. 2016-072. Our audit disclosed the following:

**Finding 1:** Although State Board of Education rules require Step Up to obtain from the parent of each first-time FTC Program student who was enrolled in a Florida public school in the prior school year a written statement that the parent has informed the student's school district that the child will be attending an eligible private school, Step Up did not obtain the required written statements from the parents of 17,654 first-time FTC Program students.

### Related Information

Section 11.45(2)(k), Florida Statutes, requires our audit to include a determination of Step Up's compliance with certain FTC Program provisions. Our audit procedures and tests of selected Step Up records and accounts found that, except as noted in Finding 1, Step Up generally complied with the applicable provisions of Section 1002.395, Florida Statutes.

Section 1002.385(14)(a), Florida Statutes, provides that, as part of our audit, we are to verify the total amount of students served and eligibility of reimbursements made by Step Up for the PLSA Program and transmit that information to the Florida Department of Education. Our audit procedures disclosed that, for the PLSA Program during the period March 2015 through February 2016, Step Up served 3,358 students and approved the payment of PLSA Program scholarship awards totaling \$22,391,090 for those students. In addition, our tests of Step Up records found that the PLSA Program scholarship payments selected for audit were eligible PLSA Program disbursements.

## BACKGROUND

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Step Up For Students, Inc., (Step Up) is a nonprofit scholarship funding organization (SFO), incorporated on February 18, 2000, and operating pursuant to State law.<sup>2</sup> Step Up's stated mission is to help public education fulfill the promise of equal opportunity by empowering parents to pursue and engage in the best learning options for their children. Step Up For Students is a state-approved nonprofit scholarship funding organization that helps administer two scholarships for Florida schoolchildren: the Florida Tax Credit Scholarship (FTC) Program for low-income families and the Florida Personal Learning Scholarship Accounts (PLSA) Program<sup>3</sup> for children with certain special needs. The governing body of Step Up is

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<sup>1</sup> Effective July 1, 2016, Chapter 2016-2, Laws of Florida, changed the PLSA Program name to the Gardiner Scholarship Program.

<sup>2</sup> Section 1002.395(2)(f), Florida Statutes.

<sup>3</sup> Effective July 1, 2016, Chapter 2016-2, Laws of Florida, changed the PLSA Program name to the Gardiner Scholarship Program.

the Board of Directors (Board), composed of seven to ten members who each serve a 3-year term. New members are elected by the Board. The Board sets policy, approves strategic plans and related resource allocations, and is responsible for the performance of the organization as a whole; whereas, the President is responsible for the day-to-day operations.

State law<sup>4</sup> established the FTC Program to expand educational opportunities for children of families with limited financial resources. The FTC 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. State law<sup>5</sup> requires the SFOs to use the contributions received for eligible students' private school tuition, transportation to public schools outside their districts, or transportation to lab schools.

State law<sup>6</sup> also requires the Florida Department of Education (FDOE) to annually verify the eligibility of the SFOs, and the FDOE recognized Step Up as an eligible SFO for the 2014-15 and 2015-16 fiscal years. Table 1 shows Step Up's FTC Program activity from March 2015 through February 2016.

**Table 1**  
**Step Up FTC Program Activities**

**For the Period March 2015 through February 2016**

Contributions collected	\$418 million
Total scholarships paid	\$404 million
Number of students awarded scholarships	91,218
Number of private schools paid	1,666

Source: Step Up records.

For the 2014-15 and 2015-16 fiscal years, eligible students received from the FTC Program maximum scholarship awards of \$5,272 and \$5,677, respectively, to attend eligible private schools or \$500 for transportation to out-of-district public schools or to lab schools.

Additionally, State law<sup>7</sup> established the PLSA Program to help meet the educational needs of students who have a specified intellectual disability such as autism, cerebral palsy, or Down syndrome. State law requires the PLSA Program moneys to be used for:

- Instructional materials including digital devices and other assistive technology devices;
- Curriculum and any required supplemental materials;
- Specialized services by approved providers selected by the parent;
- Enrollment in an eligible private school, an eligible postsecondary institute, an authorized private tutoring program, or a virtual instruction program offered by an FDOE-approved provider;

<sup>4</sup> Section 1002.395(3)(a), Florida Statutes.

<sup>5</sup> Section 1002.395(6)(d), Florida Statutes.

<sup>6</sup> Section 1002.395(9)(b), Florida Statutes.

<sup>7</sup> Section 1002.385(1), Florida Statutes (2015).

- Examination fees for specified tests and assessments;
- Contributions to the Prepaid College Program;
- Contracted services provided by a public school; and
- Tuition and fees for part-time tutoring services provided by a person who holds a valid Florida educator's certificate.

As an SFO participating in the FTC Program, Step Up qualified to participate in the PLSA program. According to Step Up accounting records for the period March 2015 through February 2016, Step Up received \$43,372,548 in PLSA Program funds from the FDOE and \$29,846 from another SFO, served 3,358 students, and approved the payment of PLSA Program scholarship awards reimbursements totaling \$22,391,090 for those students. The scholarship award amounts ranged from \$9,095 to \$20,546, depending on the student's county of residence, grade level, and disability type.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Parental Written Statements**

State Board of Education (SBE) rules<sup>8</sup> require scholarship funding organizations (SFOs) to obtain from the parent of each first-time Florida Tax Credit (FTC) Program student who was enrolled in a Florida public school in the prior school year a written statement that the parent has informed the student's school district that the child will be attending an eligible private school. The SFO is to maintain this written statement on file for no less than 3 years or until such time as the student graduates or otherwise exits the program.

The FTC Program scholarship application informs the parent to notify the public school district of the parent's decision to use the scholarship for the child to attend an eligible private school. However, Step Up had not established procedures to obtain the required written statements from parents to confirm that the parents notified the student's school district.

For the 2014-15 and 2015-16 school years, Step Up records identified 9,399 and 8,255 first-time FTC Program students, respectively, (17,654 total students) who attended a Florida public school in the prior school year. However, our discussions with Step Up personnel disclosed that Step Up did not obtain the required written statements from the parents. Without the written statements, Step Up did not comply with the SBE rules and has limited assurance that the parent informed the student's school district that the child will be attending an eligible private school.

**Recommendation: Step Up should establish procedures to obtain and maintain the required written statements from parents of first-time FTC Program students previously enrolled in a Florida public school to evidence that the parent informed the student's school district that the child will be attending an eligible private school.**

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<sup>8</sup> SBE Rule 6A-6.0960(2)(a), Florida Administrative Code.

## ***RELATED INFORMATION***

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As described in the ***OBJECTIVES, SCOPE, AND METHODOLOGY*** section of this report, we performed procedures to determine Step Up's compliance with various statutory provisions related to the Florida Tax Credit Program. Except as noted above, our audit procedures and tests of selected Step Up records and accounts found that Step Up generally complied with the applicable provisions of Section 1002.395, Florida Statutes.

In addition, as also described in the ***OBJECTIVES, SCOPE, AND METHODOLOGY*** section of this report, we performed procedures to verify the number of students who received Florida Personal Learning Scholarship Accounts (PLSA) Program<sup>9</sup> scholarship disbursements during the period March 2015 through February 2016, and examined documentation for selected scholarship payments to determine whether the payments were eligible PLSA Program disbursements. Our procedures disclosed that, during the period March 2015 through February 2016, Step Up approved, for the benefit of 3,358 students, PLSA Program scholarship award payments totaling \$22,391,090. In addition, our tests of Step Up records found that the PLSA Program scholarship payments selected for audit were eligible PLSA Program disbursements.

## ***PRIOR AUDIT FOLLOW-UP***

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Step Up had taken corrective actions for the findings included in our report No. 2016-072.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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The Auditor General conducts operational audits of governmental entities 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. State law<sup>10</sup> requires us to conduct annual operational audits of the accounts and records of scholarship funding organizations (SFOs) participating in the Florida Tax Credit (FTC) and the Florida Personal Learning Scholarship Accounts (PLSA) Programs.<sup>11</sup>

We conducted this operational audit from March 2016 through July 2016 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 the Step Up focused on selected administrative activities and management's performance related to the FTC and PLSA Programs, including Step Up's compliance with applicable laws and rules. The overall objectives of this operational audit were to:

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<sup>9</sup> Effective July 1, 2016, Chapter 2016-2, Laws of Florida, changed the PLSA Program name to the Gardiner Scholarship Program.

<sup>10</sup> Sections 11.45(2)(k) and 1002.385(14)(a), Florida Statutes.

<sup>11</sup> Section 1002.385, Florida Statutes (2015), and Section 1002.395, Florida Statutes.

- 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 1002.385 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, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether Step Up management has corrected, or was in the process of correcting, the deficiencies and noncompliance noted in the prior audit report No. 2016-072.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, 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; 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 March 2015 through February 2016, 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.

An audit by its nature does not include a review of all records and actions of entity management, staff, and vendors, and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, regulations, and Step Up policies and procedures applicable to the FTC and PLSA Programs and interviewed Step Up personnel to gain an understanding of Step Up's scholarship-related operations and evaluate the adequacy of the operations.
- Obtained an understanding of Step Up's internal controls and evaluated the effectiveness of key FTC and PLSA 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.
- Determined whether the ten Step Up bank accounts used for FTC and PLSA Program moneys during the audit period were administered through a qualified public depository pursuant to Section 1002.395(14), Florida Statutes, and whether separate accounts were established for scholarship and operating funds as required by Section 1002.395(6)(k), Florida Statutes. We also determined whether Step Up periodically reviewed banking agreements for sufficiency of the safeguards provided.
- Assessed the sufficiency of Step Up's controls for electronic transfers and transmitting funds via the Automated Clearing House to students for the PLSA Program.
- Examined Step Up records as of March, June, September, and December 2015 to determine whether funds invested (approximately \$113 million as of February 29, 2016) complied with Step Up's investment policy and Section 17.57(2), Florida Statutes.
- Examined documentation to determine whether Step Up obtained required level 2 background screenings and verified that there were no bankruptcies associated with the three Step Up owners or operators as required by Section 1002.395(6), Florida Statutes.
- Examined documentation for 60 students, selected from the population of 91,218 students who received FTC Program scholarship awards during the audit period, to determine whether Step Up documented student program eligibility as required by Section 1002.395(6)(j)3., Florida Statutes.
- From the population of FTC Program scholarship payments totaling \$404 million made during the audit period, examined Step Up documentation for scholarship payments totaling approximately \$287,000 made on behalf of 60 students to determine whether the payments were used for students to attend eligible private schools or for transportation to a public school outside of the recipient's district or to a lab school pursuant to Section 1002.395(6)(b), Florida Statutes.
- From the population of 465 eligible private schools paid a total of \$253 million from FTC Program moneys, examined documentation for 5 schools that collectively received \$11 million during the 2014-15 fiscal year to determine whether Step Up adequately monitored the performance of agreed-upon procedures for applicable private schools pursuant to Section 1002.395(8)(e), Florida Statutes.
- Examined Step Up documentation to determine whether the FTC Program reports required to be filed on March 15, 2015, August 15, 2015, October 15, 2015, and January 15, 2016, and the PLSA Program reports required to be submitted on April 30, 2015, June 30, 2015, October 31, 2015, and January 31, 2016, were timely submitted to the Florida Department of Education (FDOE) and contained the information required by Sections 1002.395(9)(m) and 1002.385(9)(d), Florida Statutes, and State Board of Education Rules 6A-6.0960(2)(b) and 6A-6.0961(6), Florida Administrative Code (FAC), respectively.
- Examined Step Up records for the 2014-15 fiscal year to determine whether Step Up complied with carryforward limitations on unexpended FTC Program moneys pursuant to Section 1002.395(6)(j)2., Florida Statutes.

- Determined whether Step Up provided the FDOE a summary of the FTC scholarship amount paid for each student and the school attended, no later than 30 days after the last payment date of the school year, as required by SBE Rule 6A-6.0960(2)(c), FAC.
- Examined Step Up's records to determine whether Step Up obtained from each parent of first-time FTC Program students written statements that they had informed the student's school district that the child will be attending an eligible private school.
- Confirmed with the surety that the surety bond Step Up obtained pursuant to its 2016-17 fiscal year renewal application submitted to the FDOE in September 2015 was still maintained as of May 2016 and was in the amount required by Section 1002.395(6)(p), Florida Statutes.
- Examined Step Up's financial audit report for the 2013-14 fiscal year to determine whether Step Up was eligible, pursuant to Section 1002.395(6)(j)1., Florida Statutes, to use FTC Program moneys for administrative expenses for the 2014-15 fiscal year, and to verify that such expenses did not exceed 3 percent of eligible contributions received during the 2014-15 fiscal year. From the population of administrative expenses totaling \$10 million and eligible to be charged to the FTC Program for the 2014-15 fiscal year, examined Step Up documentation for 25 expenses totaling \$1.2 million to determine whether the expenses were not prohibited pursuant to Section 1002.395(6)(j)1., Florida Statutes, and were reasonable and necessary to operate the FTC Program.
- Determined whether Step Up charged an application fee for FTC scholarship program applicants and that any application fees charged were immediately refunded, pursuant to Section 1002.395(6)(j)(1), Florida Statutes, to the person who paid the fee if the student was not enrolled in a participating school within 12 months. Specifically, from the 4,435 applications, with fees totaling \$146,185, that had no scholarships awarded during the audit period, we selected and examined documentation related to 30 applications with fees totaling \$1,003 to determine whether the fees were immediately refunded to the person who paid the application fee.
- Examined documentation for selected accounts receivable to determine whether Step Up's collection efforts complied with established policies and procedures and good business practices.
- Examined Step Up records supporting the population of 3,358 students who received PLSA Program scholarships by Step Up during the audit period, as well as documentation for 60 selected students to verify the number of students served and to determine whether Step Up complied with applicable Program eligibility requirements established in Section 1002.385(3)(a), Florida Statutes, and SBE Rule 6A-6.0961(5)(a), FAC.
- From the population of PLSA Program scholarship disbursements totaling \$22,391,090 made during the audit period, examined documentation for 60 scholarship payments totaling approximately \$165,000 to determine whether the payments were eligible PLSA Program disbursements and were not reduced for administrative expenses.
- Determined whether Step Up had established procedures to notify parents of PLSA Program scholarship awards and to provide a date for parents to confirm initial or continuing program participation pursuant to Section 1002.385(12)(b) and (c), Florida Statutes.
- Reviewed Step Up's policies and procedures for the return of unused PLSA Program funds to the FDOE and determined whether any amounts were required to be returned pursuant to Section 1002.385(12)(g) and (13)(c), Florida Statutes.
- From the population of 231 PLSA students identified by the FDOE in its October 2015 and February 2016 surveys as potentially being enrolled in a Florida public school, examined documentation to determine whether Step Up timely returned program funds, if applicable, to the FDOE.
- 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 objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

## ***AUTHORITY***

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Section 11.45(2)(k), Florida Statutes, requires the Auditor General to annually 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. Similarly, Section 1002.385(14)(a), Florida Statutes, requires the Auditor General to annually conduct an operational audit of the accounts and records of each eligible scholarship funding organization that participates in the Florida Personal Learning Scholarship Accounts Program. 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.



Sherrill F. Norman, CPA  
Auditor General

## MANAGEMENT'S RESPONSE

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October 6, 2016

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

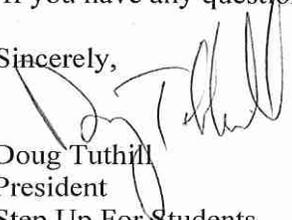
Dear Ms. Norman,

Enclosed is our response to the preliminary and tentative audit findings and recommendations that we received on September 15, 2016.

Your staff's professionalism and expertise, as always, are greatly appreciated. Our deep commitment to integrity and continuous improvement are strengthened by measures and processes that result from their recommendations.

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

Sincerely,



Doug Tuthill  
President  
Step Up For Students

c: Board members

## **Step Up For Students Response To Preliminary and Tentative Findings**

### **Finding 1: Parental Written Statements**

State Board of Education (SBE) rules<sup>[1]</sup> require scholarship funding organizations (SFOs) to obtain from the parent of each first-time Florida Tax Credit (FTC) Program student who was enrolled in a Florida public school in the prior school year a written statement that the parent has informed the student's school district that the child will be attending an eligible private school. The SFO is to maintain this written statement on file for no less than 3 years or until such time as the student graduates or otherwise exits the program.

The FTC Program scholarship application informs the parent to notify the public school district of the parent's decision to use the scholarship for the child to attend an eligible private school. However, Step Up had not established procedures to obtain the required written statements from parents to confirm that the parents notified the student's school district.

For the 2014-15 and 2015-16 school years, Step Up records identified 9,399 and 8,255 first-time FTC Program students, respectively, (17,654 total students) who attended a Florida public school in the prior school year. However, our discussions with Step Up personnel disclosed that Step Up did not obtain the required written statements from the parents. Without the written statements, Step Up did not comply with the SBE rules and has limited assurance that the parent informed the student's school district that the child will be attending an eligible private school.

*Recommendation: Step Up should establish procedures to obtain and maintain the required written statements from parents of first-time FTC Program students previously enrolled in a Florida public school to evidence that the parent informed the student's school district that the child will be attending an eligible private school.*

Step Up has implemented enhanced procedures to ensure that we comply with State Board of Education rules, and will collect the required written statements from parents, beginning with the 2016-17 school year. In addition, we have strengthened our review processes to include an annual review of SBE rules changes. We also think there may be opportunities for the state to reassess the current approach, and we plan to work with the department to examine the impact of the current rule on scholarship parents and public schools.

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<sup>[1]</sup> SBE Rule 6A-6.0960(2)(a), Florida Administrative Code.