The Florida Tax Credit, Gardiner, Hope and John McKay Scholarship Programs

Financial Accountability Webinar
2018 – 2019 School Year
Topics for Today’s Webinar

3. The Facts
4. Why is this requirement necessary?
5. The AUP Development Process
6. Major Changes
11. The Agreed Upon Procedures, or AUPs?
47. Suggested next steps, Mailing Instructions, Resources Available
50. Questions, comments, and contacts
The Facts

- Private schools that receive more than $250,000 in combined scholarships for McKay, Florida Tax Credit (FTC), Hope and Gardiner (PLSA) funding from Step Up For Students (SUFS) and DOE during 2018-19 school year must submit a financial report to SUFS no later than September 15, 2019.

- Schools must hire an Independent Florida-licensed Certified Public Accountant, (CPA), to complete this financial report.

- The Agreed-Upon Procedures (AUPs) are defined procedures that will guide the CPA as they complete the report on behalf of the private school.
Why is this requirement necessary?

• It is required by Florida Statute (1002.421(1)(q.))

• Financial accountability is essential for program growth

• Proof that scholarship funds are safeguarded and spent on education-related expenditures
  • Based on the forecasted annual calculations there are 1065 schools receiving more than $855 million in scholarship funds from the FTC, Gardiner, Hope and John McKay scholarship programs for the 2018-19 school year who will be required to submit an AUP report to SUFS.
AUP Development Process

• Financial accountability measure passed by Florida Legislature in Spring 2010
• The AUP Program was created by CPAs, SUFS and input from schools to meet this requirement.
• New guidelines developed every two years in conjunction with:
  • AAA Scholarship Foundation, and
  • Florida Board of Accountancy
• Reviewed and approved by Florida Association of Academic Non-public Schools (FAANS) member groups
Major Changes

- **Section III.A.** — Cash Balances — All banks holding scholarship funds should be held at a federally insured depository institution. (FDIC) Funds should not exceed the FDIC limit of $250,000 during any month.
  - If the FDIC limit is exceeded, the school is required to review the bank using a reputable ratings provider which may include, but is not limited to, Bauer Financial, Fitch, Moody’s, Standard and Poor’s.
  - It is a Reportable Exception if a FDIC bank is not used or the funds exceeded the limit and no review is performed.
Other Major Changes

• Guidelines were clarified to ensure more consistent application of procedures:
  • Testing of compliance has been introduced to these procedures:
    • “III.E.1 - By inquiry, determine whether an annual budget is prepared
      and approved by the school’s governing body before the start of each
      fiscal year, and any budget amendments thereafter, and actual results
      are periodically reviewed in comparison to budget and reported to the
      school’s governing body at least twice annually”.
  • In the above example we now ask the CPA to:
    • “Review the meeting’s financial minutes of the school’s governing body
      that occurred during the current school year, and those immediately
      preceding it, and determine adherence with step III.E.1”
Other Major Changes

• **Section IV** – Scholarship Deposit Samplings for All Programs:
  
  • Include at least 2 students from each Scholarship program in a sample (1 if only 1 student participates in a program)
  
  • Obtain the Scholarship checks for the student sampling of each program
    
    • Determine adherence to check cashing policy
    
    • Determine that the endorsement:
      
      • Is reasonably similar to the payee or power of attorney’s signature in file
      
      • Matches the information in the student’s file
    
    • The CPA is not required to observe a parent endorsing the check, nor is the CPA required to observe the bank deposit. This can be done by reviewing copies of the front and back of the checks.
Other Major Changes

• **Section V - Education-related expenses**

  • New procedures:
    - Provide broader examples of education-related expenditures.
    - The CPA is to prepare a list of education-related expenditures.
      - This should be a complete list with a total of **ALL** education-related expenditures. The list should include categories such as Salaries and Benefits, Rent, Supplies, etc.
      - The list should be included in the report. Examples of tables can be found in the FAQ’s on the website.
Other Major Changes

• **Section V - Education-Related Expenses (cont.)**
  
  • **New procedures (cont.):**
    
    • The CPA should sample the completed list of Education Related Expenses based on a sample-size table provided in the guidelines and ascertain that:
      
      • The expenditure is education-related;
      • Was properly authorized in accordance with the school’s internal controls;
      • Was properly classified in the general ledger;
      • Was paid timely and accurately from the school’s bank account.

Note: The sample size table is based on the **TOTAL** education related expenditures.
The Agreed-Upon Procedures (AUPs)

• Six sections:
  • I. School Eligibility
  • II. Adequate Accounting System
  • III. Adequate System of Financial Controls
  • IV. Adequate Process for Deposit and Classification of Scholarship Funds
  • V. Properly Expended Scholarship Funds for Education-Related Expenses
  • VI. Other Procedures
I. School Eligibility - MATERIAL

**To-Do for Schools**

- Locate all of the DOE compliance letters that cover the 2018-2019 school year and reflect your school’s compliance status
  
  OR

- Use the Florida Department of Education website to locate and print out compliance information

**Instructions to CPA**

- Obtain the compliance letter—or other proof of eligibility from the FL DOE and verify that the proof of eligibility covers the correct school year to which the AUPs are being performed, and include copies with the report.
Accessing Compliance Status on DOE Website

Navigate to http://www.fldoe.org/schools/school-choice/ then select “Private School Login” in the box below.
Accessing Compliance Status on DOE Website

Login using your unique 4-digit code and password.
Accessing Compliance Status on DOE Website

Select “View School Info” under Administration section
Accessing Compliance Status on DOE Website

- Be sure to print the entire history of the private school compliance to validate compliance for the 2018-2019 school year.

- School compliance must be approved for the program to which the procedures are being applied.
Two Types of Exceptions

**Material Exceptions**
- Exceptions found on procedures deemed material to the program
- Reportable in the CPAs report
- Will be reported to Florida Department of Education (FL DOE) by SUFS

**Reportable Exceptions**
- Exceptions found on procedures that are deemed important but not material to the program
- Reportable in the CPAs report
- Will not be reported to FL DOE unless it reoccurs in 3 consecutive years
II.A Adequate Accounting System - MATERIAL

**To-Do for Schools**

- Be prepared to show CPA the software or system you use to maintain school financial records.
- Examples: Quicken, QuickBooks, paper ledger, checkbook, Excel, etc.

**Instructions to CPA**

Identify and document the accounting software or systems used to maintain the school’s financial records.

- Observe and notate the accounting system used by the school.
II. Adequate Accounting System - MATERIAL

To-Do for Schools

Be prepared to show how the accounting system:

• Records financial transactions conducted by the school including deposits and disbursements;

• Is a self-balancing system (requires Debits and Credits) that produces a trial balance and financial statements;

• Produces student account statements and subledgers such as AP, AR, Fixed Assets, etc. and how they are reconciled to GL.
II.B Adequate Accounting System - MATERIAL

Instructions to CPA

Determine if the accounting software or systems being used:

• Allows the school to record financial transactions conducted by the school including deposits and disbursements in a complete and self-balancing accounting system; and

• It is capable of generating a trial balance, financial statements and student account statements and other subledger reports;

• If a separate non-self-balancing system for student account statements is used, note whether it is regularly reconciled to the general ledger.
III. Adequate System of Financial Controls

A. Cash Balances - REPORTABLE

Instructions to CPA

Verify if the school’s scholarship funds are held at a federally insured depository institution;

To-Do for Schools

Determine if the depository institution holding the scholarship funds are federally insured with FDIC or NCUA.

FDIC
Federal Deposit Insurance Corporation

NCUA
National Credit Union Administration, a U.S. Government Agency
III. Adequate System of Financial Controls

A. Cash Balances - REPORTABLE

To-Do for Schools

Provide to the CPA the state fiscal year-end bank statements (June 30, 2019) and the two other months as requested by the CPA.

If funds have exceeded the $250,000 during the month or if funds are not in a FDIC bank account, provide documentation of an annual review of the bank’s ratings using a reputable ratings provider. Ratings should be within the top two ratings to be acceptable.

Instructions to CPA

Review three months’ bank statements (including the state fiscal year-end bank statement – June 30, 2019). Determine if a FDIC bank was used and that the average daily account balance did not exceed the FDIC limit of $250,000 during the school year being tested.

If a FDIC bank is not used report as a Reportable Exception or if funds exceeded the $250,000 during any month, review documentation of the bank’s rating review by the school using a reputable ratings provider. If rating is lower than top two ratings or no review was done, report as a Reportable Exception.
III.B Adequate System of Financial Controls Non-School Expenses - MATERIAL

**To-Do for Schools**

Prepare to identify to the CPA any non-school expenses that are paid from the same bank account and how they are tracked separately from education-related expenses.

**Instructions to CPA**

By inquiry and sample, note if non-school expenses are disbursed from the school’s bank account and if so, indicate whether they are being identified and/or tracked separately from the school’s expenses;

- Non-school expenses are those not education-related.
III.B.2 Adequate System of Financial Controls
Non-School Expenses - MATERIAL

To-Do for Schools

Provide the CPA with a schedule or list of non-school expenses and show the CPA where the sampled expenditures are recorded.

Instructions to CPA

Select a sample of 5 non-school expenses and determine whether they are being identified and tracked separately from school expenses.
III.C Adequate System of Financial Controls
Internal Controls - MATERIAL

To-Do for Schools

• Provide to the CPA the school’s procedures for:
  – Depositing and recording monies received;
  – Spending money for:
    – Payroll
    – Operating Expenses
    – Capital Expenditures (fixed assets like buildings, furniture, computers, printers, etc.)
    – Shared expenses (costs shared with other entities - churches, temples, mosques, etc.)

• Who performs the steps in the process?
• What approvals are required?
III.C.1 Adequate System of Financial Controls

Internal Controls - MATERIAL

Instructions to CPA

By inquiry, determine if the school has written policies or standard practices to establish proper financial controls including segregation of duties and the policies or practices are being consistently followed for:

I. Cash Receipts
II. Capital Expenditures;
III. Payroll – including time and attendance, calculations and pay rate and deduction changes;
IV. Operating Expenditures; and
V. Shared costs - Costs shared by the school with another organization (administrative salaries, facilities, etc.) should be allocated between the organizations in a systematic and rational approach.
III.C.2/3 Adequate System of Financial Controls Internal Controls - MATERIAL

To-Do for Schools

2. In the absence of written policies, describe the procedures for financial controls to the CPA.

3. Provide the CPA with the requested sample documentation and assist the CPA with the testing procedures described in steps IV.B, V.B and VI. B-C.

Instructions to CPA

2. In the absence of written policies, briefly describe the standard practices used to establish proper financial controls over the transactions listed in III.C.1;

3. See testing procedures in steps IV.B, V.B and VI.B-C;
III.D.1 Adequate System of Financial Controls
Bank Reconciliations - MATERIAL

To-Do for Schools

- What is your process for reviewing bank reconciliations?
- Who completes bank reconciliations?
- Who reviews the bank reconciliations? Must show proof of review.
- What is the time frame for this process?
- What is the timeframe for resolving reconciling items?

Instructions to CPA

By inquiry, note whether reconciliations of all bank accounts are completed within 60 days of each month end including:

- an independent review done by the school’s management; and
- resolution of any reconciling items that are in process prior to the bank’s deadline for reporting errors;
III.D.2  Adequate System of Financial Controls

Bank Reconciliations - MATERIAL

**To-Do for Schools**

Provide the CPA with the bank reconciliations for the statements observed in step III.A.2. Provide supporting information indicating when the reconciliations were completed, reviewed and reconciling items resolved.

**Instructions to CPA**

Using the bank statements reviewed in step III.A.2, review the associated bank reconciliations and determine whether they were completed within the guidelines outlined in III.D.1
III.E.1 Adequate System of Financial Controls
Budgets and Financial Statements - REPORTABLE

To-Do for Schools

Describe for the CPA:
• Do you have an annual budget?
• Is it approved by the school’s governing body before the start of the school’s fiscal year?
• Are amendments to the budget approved by the school’s governing body?
• Are actual results compared to the Budget periodically and reported to the school’s governing body at least twice annually?

Instructions to CPA

By inquiry, determine
– whether an annual budget is prepared and approved by the school’s governing body before the start of each fiscal year, and any budget amendments thereafter, and
– actual results are periodically reviewed in comparison to budget and reported to the school’s governing body at least twice annually.
III.E.2 Adequate System of Financial Controls
Budgets and Financial Statements - REPORTABLE

**To-Do for Schools**

Provide the CPA with the financial section of the meeting minutes of the school’s governing body during 2018-2019 school year.

**Instructions to CPA**

Review the financial sections of the meeting minutes of the school’s governing body that occurred during the current school year, and those immediately preceding it to determine adherence with step III.E.1.
IV. A Adequate Process for Deposit and Classification of Scholarship Funds - MATERIAL

To-Do for Schools

• Provide the CPA with the SFO’s Check Cashing Policy
• Provide or describe to the CPA the school’s procedures for endorsing, depositing and recording scholarship payments.

Instructions to CPA

Obtain the Scholarship Funding Organization’s Check Cashing Policy (the “Check Cashing Policy”) and inquire if the school is following the Check Cashing Policy and complying with section 1002.395 (11)(b) F.S. to include:

– obtaining the guardian’s signatures
– depositing the check into the school’s bank account.
IV. A  Adequate Process for Deposit and Classification of Scholarship Funds - MATERIAL

Instructions to CPA

Determine if the parent or guardian endorsement matches the named payee on the check or the name of a power of attorney on file granted to a person that is not related to the school and matches the information in the student’s file with the school.
IV. Adequate Process for Deposit and Classification of Scholarship Funds-MATERIAL

To-Do for Schools

Provide the CPA with the Letters of Transmittal received from the SFO for all Scholarship Funds received in 2018-2019 listing the scholarship students that have received payments.

• Assist the CPA with tracing the sampled scholarship payments to:
  • The general ledger;
  • The student’s account statement;
  • A deposit in the school’s bank account.
IV.B Adequate Process for Deposit and Classification of Scholarship Funds-MATERIAL

Instructions to CPA

B. Select a sample of the greater of 10 students or 5% of the scholarship student population. The sample should include at least two students from each Scholarship program. (one if only one student is participating in a given program)

Example:

<table>
<thead>
<tr>
<th>Scholarship Sampling Breakout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
</tr>
<tr>
<td>FTC</td>
</tr>
<tr>
<td>Gardiner</td>
</tr>
<tr>
<td>Hope</td>
</tr>
<tr>
<td>John McKay</td>
</tr>
<tr>
<td>Total Students Scholarships</td>
</tr>
</tbody>
</table>

Test the sample students’ scholarship checks and ascertain the funds are classified in general ledger as tuition, books and fees payments and the corresponding general ledger bank account.

Also, determine whether the funds are posted to each student’s tuition account/statement and confirm funds are deposited into the school’s bank account.
V.A  Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL

Instructions to CPA

A. Obtain the dollar value of the Program’s Scholarships received for students attending the school. **Provide a breakdown by program.** Please include with your AUP report

**Example:**

<table>
<thead>
<tr>
<th>Scholarship Breakdown</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program</strong></td>
</tr>
<tr>
<td>FTC</td>
</tr>
<tr>
<td>Gardiner</td>
</tr>
<tr>
<td>Hope</td>
</tr>
<tr>
<td>John McKay</td>
</tr>
<tr>
<td>Total Students Scholarships</td>
</tr>
</tbody>
</table>
V.B (cont.) Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL

To-Do for Schools

• Assist the CPA in identifying and preparing the list of education-related expenses incurred in 2018-2019.
• Be sure to identify any costs that are shared with another entity such as a church, temple or mosque
• Provide the CPA with allocation methodologies for shared expenses
  – Allocation methodologies must be systematic and rational

Instructions to CPA

Education-related expenses include but are not limited to:
  – School-related personnel expenses,
  – curriculum,
  – classroom technology,
  – building expenses (rent, mortgage interest, property taxes, insurance and maintenance costs associated with the school facilities)
  – and classroom instructional resources.
V. B  Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL.

Instructions to CPA

B. By scanning the general ledger, identify and prepare a list of Education-Related Expenses;

- Determine that the total Education-Related Expenses are at least equal to the dollar value of the Program Scholarship Funds received.

Example:

<table>
<thead>
<tr>
<th>Education Related Expenses</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>660,783.00</td>
</tr>
<tr>
<td>Rent</td>
<td>195,270.00</td>
</tr>
<tr>
<td>Food Program</td>
<td>33,978.00</td>
</tr>
<tr>
<td>School Supplies</td>
<td>24,885.00</td>
</tr>
<tr>
<td>Insurance</td>
<td>24,073.00</td>
</tr>
<tr>
<td>Uniforms</td>
<td>16,922.00</td>
</tr>
<tr>
<td>Repair &amp; Maintenance</td>
<td>15,134.00</td>
</tr>
<tr>
<td>Books, Materials &amp; Testing</td>
<td>14,172.00</td>
</tr>
<tr>
<td>Computer/Internet Charges</td>
<td>12,213.00</td>
</tr>
<tr>
<td>Utilities</td>
<td>11,803.00</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>1,009,233.00</strong></td>
</tr>
</tbody>
</table>
V.B (cont.) Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL

Instructions to CPA

Using the list developed in step V.B. select the sample size of Education-Related Expenditures incurred during the school year using the table below:

<table>
<thead>
<tr>
<th>Value of Total Education-Related Expenditures</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>From $250,000 To $500,000</td>
<td>30</td>
</tr>
<tr>
<td>$500,000 To $750,000</td>
<td>45</td>
</tr>
<tr>
<td>$750,000 To $750,000+</td>
<td>60</td>
</tr>
</tbody>
</table>

Each of the categories listed in section III.C.1 ii-v, if applicable, must be represented in the selected sample by at least 10% of the number of items selected.
V. Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL

**To-Do for Schools**

- Provide the CPA with supporting documentation for the education-related expenditures sampled.
- Assist the CPA in determining that the expenditure is:
  - Education-related;
  - Was properly authorized in accordance with the policies identified in step III.C;
  - Is properly classified in the general ledger; and
  - Was paid timely and accurately from the school’s bank account(s).
- For payroll related expenditures sampled, provide the corresponding, properly authorized time and attendance, pay rate and deduction records.
V.C. Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL

Instructions to CPA

For each item sampled, scan supporting documentation and determine if the expenditure is:

– Education-related;
– Was properly authorized in accordance with the policies identified in step III.C;
– Is properly classified in the general ledger; and
– Was paid timely and accurately from the school’s bank account(s).

For payroll expenditures sampled, also re-calculate pay based on corresponding time and attendance, pay rate and deductions records properly authorized in accordance with the policies identified in step III.C above.
VI.A Other Procedures - REPORTABLE

To-Do for Schools

- Provide a copy of the 2018-19 tuition and fee schedule as distributed to parents/guardians to the CPA.
- Assist the CPA in determining whether tuition and fees are being charged equally amongst scholarship and non-scholarship students.

Instructions to CPA

Obtain a copy of the tuition & fees schedule for the school year being tested.
- Using the sample selected for section IV.A.,
- Confirm the tuition charged the sample students is consistent with the tuition policy for all students.
VI.B Other Procedures - MATERIAL

**To-Do for Schools**

- Provide the CPA with the school’s attendance policy;
- Provide the CPA with attendance records for each of the selected sample students;
- Assist the CPA in determining whether the attendance records of each of the selected students meet the school’s attendance policy.

**Instructions to CPA**

Obtain the school’s student attendance policy.

- Determine if the policy for Program’s Scholarship Students is consistent with the policy for all students and is consistent with state law.
- Using the sample selected for step IV.B., scan the attendance records for each selected student and determine whether they meet the school’s attendance policy.
VI.C Other Procedures - MATERIAL

To-Do for Schools

• Assist the CPA in confirming attendance. This requirement must be completed before the end of the 2018-2019 school year!

Instructions to CPA

Without advance notice, using the sample selected for step IV.A.2, observe the attendance records for each student to determine whether they meet the school’s attendance policy. If the student is not present, determine if they are listed absent on the attendance records. (Sample should include 2 students from each Program)

Be sure to comply with the school’s policy on visitors!
Specific Guidelines Governing the Reportability of Exceptions

Exceptions found in the course of performing the AUPs fall into one of two categories depending on the significance of the attributes being tested to the integrity of the Programs:

- Material Exceptions; or
- Reportable Exceptions.

The guidelines for each procedure indicate whether exceptions found during the performance of the procedure are Material Exceptions or Reportable Exceptions.

All Material Exceptions are required to be reported to the Department of Education by the SFO and will require preparation and submission of a Corrective Action Plan by the school to the SFO outlining the steps the school plans to take to correct the Material Exception.

A Corrective Action Plan is a letter on school letterhead that gives a synopsis of the material exceptions, as well as the steps taken to remediate them. It must be signed by the school owner.
Specific Guidelines Governing the Reportability of Exceptions (Cont.)

- Reportable Exceptions should be reported to the SFO, which may provide a recommendation for corrective action to the school.

- If the same or substantially the same Reportable Exception is reported in three consecutive years, that same or substantially same exception should be reported as a Material Exception in the report for the third year in which that exception is reported and for each year thereafter that it remains uncorrected.
Next Steps

• Engage an INDEPENDENT Certified Public Accountant (CPA)

• Provide the CPA with the Agreed Upon Procedures

• Request the CPA to watch this webinar if they have not already participated
  – The Webinar will be available at https://www.stepupforstudents.org/for-schools-providers/agreed-upon-procedures/
  – Be sure the CPA conducts the attendance review on-site before students leave for the end of the school year or it will result in a MATERIAL EXCEPTION
Mailing Instructions

• For scanning purposes, Please print report 1-sided. Please do not bind or staple reports.

• The financial reports, in original physical form, must be submitted to:

  Step Up For Students
  c/o: AUP Staff
  4655 Salisbury Road, Suite 400
  Jacksonville, FL 32256

• Reports must be Postmarked on or before September 16, 2019
Resources Available

- Available at StepUpForStudents.org
  - Webinars
  - FAQ's
- Questions? email AUP@sufs.org
Questions?

FAQ’s available at

https://www.stepupforstudents.org/for-schools-providers/agreed-upon-procedures