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

Financial Accountability Webinar

2019 -2020 School Year
3. The Facts
4. Why is this requirement necessary?
5. The AUP Development Process
6. Major Key Points
9. The Agreed Upon Procedures (AUP)
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The Facts

• Private schools receiving $250,000.00 or more in combined funds from the John McKay, Florida Tax Credit (FTC), Family Empowerment (FES), Hope and Gardiner (PLSA) Scholarship programs from Step Up For Students (SUFS), the Department of Education (DOE) and AAA during 2019-20 school year must submit a financial report to SUFS no later than September 15, 2020.

• Schools must hire a currently licensed, active Florida Certified Public Accountant firm licensed to perform attest engagements in the state to complete this financial report. Licenses will be verified.

• The Agreed-Upon Procedures (AUPs) are defined procedures that will guide the CPA as they complete the report on behalf of the private school.

• The 2019-2020 AUP instructions, examples, reference materials and samples can be found at our website located at: https://www.stepupforstudents.org/for-schools-providers/agreed-upon-procedures/
Why is this requirement necessary?

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

- Financial accountability is essential for program growth
  - Increase in fundraising cap, appropriation and individual scholarship amount

- Proof that scholarship funds are safeguarded and spent on education-related expenditures
  - Based on the forecasted annual calculations there are 2105 schools receiving more than $1 billion dollars in scholarship funds from the FTC, FES, Gardiner, Hope and John McKay scholarship programs for the 2019-20 school year. 1353 of these schools will be required to submit an AUP reports this year.
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 are 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 and the Department of Education
Major Key Points

**Contracting a CPA** - All CPAs contracted to perform these AUP procedures must be a currently licensed, active Florida Certified Public Accountant firm licensed to perform attest engagements in the state to complete this financial report.

**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.

**NOTE:** SUFS began issuing ACH payments for the FTC program during the 4th quarter of the 2019-20 school year. This may cause the FDIC limits to be exceeded.

- If the FDIC limit is exceeded, the school is required to review the bank annually using a reputable ratings provider which may include, but is not limited to, Bauer Financial, Fitch, Moody’s, Standard and Poor’s. The bank rating should be within the top two ratings of their scale. The school should print out and have the administrator sign and date the review. The CPA should include a copy of this with their report.
- It is a Reportable Exception if a FDIC bank is not used or the funds exceeded the limit and no review is performed.
Additional Key Points

Section V - Education-related expenses

• The CPA should record in their report the total dollar amount of Scholarship funds the school received.

• The CPA is to prepare a summary list of education-related expenditures and include a copy with the report.

• The list of education-related expense categories should 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.
  
  • Do not include extracurricular activity expenses, such as after school athletics programs, events or transportation to and from those events.
Additional Key Points

• **Section V - Education-Related Expenses (cont.)**
  • **Combined Expenses:**
    • When multiple schools are managed by a single entity or accounting system and their expenses cannot be identified separately in the general ledger, each school should have a sampling taken based on the total combined education related expenses.

    • 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.

    A deficiency in any of this areas would be considered an exception.

**Note:** The sample size table is based on the total of **ALL** 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 and provide the CPA a copy of all the DOE compliance letters that covers the 2019-2020 school year and reflect your school’s compliance status with the programs.

• Schools can sign on to the Florida Department of Education website to locate and print out their compliance information.

• An example of the compliance letter can be found on our website at https://www.stepupforstudents.org/for-schools-providers/agreed-upon-procedures/

Instructions to CPA

• Obtain a copy of the compliance letter(s) –or other proof of eligibility from the FL DOE and verify that the proof of eligibility covers the correct school year and programs to which the AUP is being performed.

• Include a copy(s) 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 **2019-2020** school year.

- School compliance must be approved for the program(s) to which the procedures are being applied.

<table>
<thead>
<tr>
<th>Renewal Date</th>
<th>Renewal Type</th>
<th>Copy Received</th>
<th>Compliant?</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-2016</td>
<td>Standard Renewal Two</td>
<td>11/17/2014</td>
<td>Yes</td>
</tr>
<tr>
<td>2013-2014</td>
<td>Full Renewal</td>
<td>11/9/2012</td>
<td>Yes</td>
</tr>
<tr>
<td>2012-2013</td>
<td>Standard Renewal Two</td>
<td>11/7/2011</td>
<td>Yes</td>
</tr>
<tr>
<td>2010-2011</td>
<td>Full Renewal</td>
<td>11/12/2009</td>
<td>Yes</td>
</tr>
<tr>
<td>2009-2010</td>
<td>Standard Renewal Two</td>
<td>11/24/2008</td>
<td>Yes</td>
</tr>
<tr>
<td>2008-2009</td>
<td>Standard Renewal One</td>
<td>11/7/2007</td>
<td>Yes</td>
</tr>
<tr>
<td>2007-2008</td>
<td>Full Renewal</td>
<td>3/2/2007</td>
<td>Yes</td>
</tr>
<tr>
<td>2006-2007</td>
<td>Standard Renewal Two</td>
<td>4/12/2006</td>
<td>Yes</td>
</tr>
<tr>
<td>2005-2006</td>
<td>None on file.</td>
<td>1/13/2006</td>
<td>Yes</td>
</tr>
<tr>
<td>2004-2005</td>
<td>None on file.</td>
<td>--</td>
<td>No</td>
</tr>
<tr>
<td>2003-2004</td>
<td>None on file.</td>
<td>9/16/2003</td>
<td>No</td>
</tr>
</tbody>
</table>

### Attendance Verification

<table>
<thead>
<tr>
<th>Program</th>
<th>Last Att. Ver.</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>McKay</td>
<td>1/5/2015 5:01:09 PM</td>
<td></td>
</tr>
</tbody>
</table>
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 systems used to maintain the school financial records.

Instructions to CPA

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

- Examples: Quicken, QuickBooks, paper ledger, checkbook, Excel, etc.
II.B Adequate Accounting System - MATERIAL

To-Do for Schools

Be prepared to show how the accounting system functions.

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 can generate a trial balance, financial statements and student account statements and other subledger reports, such as AP, AR, Fixed Assets, etc.

• 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

**To-Do for Schools**

Provide to the CPA the fiscal year-end bank statement (June 30, 2020) 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’s 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 months tested.

**NOTE:** SUFS began issuing ACH payments for the FTC program during the 4th quarter of the 2019-20 school year. This may cause the FDIC limits to be exceeded.

If a FDIC bank is not used or if funds exceeded the $250,000 during any month, review documentation of the bank’s rating review provided by the school using a reputable ratings provider. If rating is lower than the 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 sampling of 5 non school expenses, 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 any of those non education-related expenses as previously described.
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**

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:

1. Cash Receipts
2. Capital Expenditures;
3. Payroll – including time and attendance, calculations and pay rate and deduction changes;
4. Operating Expenditures; and
5. 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.

In the absence of written policies describe practices used for proper financial controls.
III.D. Adequate System of Financial Controls

Bank Reconciliations - MATERIAL

Instructions to CPA

Using the 3 statements from Section III.A determine 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.E. Adequate System of Financial Controls
Budgets and Financial Statements - REPORTABLE

To-Do for Schools

Describe for the CPA if an annual budget is prepared and approved before start of school. Provide the CPA with the financial section of the meeting minutes indicating the budget is amended or approved and reviewed at least twice annually?

Instructions to CPA

Determine if 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 if actual results are periodically reviewed in comparison to budget and reported to the school’s governing body at least twice annually. Review the financial section of the meeting minutes to determine adherence.
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. including:
- obtaining the guardian’s signatures and confirming
- depositing the check into the school’s bank account.
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 2019-2020 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.A.2/3 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)

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.

<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>

Example:
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. Do not include any PPP loan amounts.

B. Provide a breakdown by program and include with your AUP report

Example:

<table>
<thead>
<tr>
<th>Scholarship Breakdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
</tr>
<tr>
<td>FTC</td>
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<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  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 2019-2020.
• 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

By scanning the general ledger, identify and prepare a list of all Education-Related Expenses. Include the list in/with the AUP report.

*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>

Determine if the expenses are at least equal to the dollar value of the program scholarship funds received. If not, what are the school’s intention to do with the excess funds?
V.B (cont.) Properly Expended Scholarship Funds For Education-related Expenses - MATERIAL

Instructions to CPA

**Sample Selection:** Using the list developed in step V.B. select the sample size based on the total of all Education Related Expenditures.

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

- The school should provide the CPA with supporting documentation for the education-related expenditures sampled.
- The CPA will 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 2019-20 tuition and fee schedule to the CPA.

Instructions to CPA

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/C  Other Procedures - MATERIAL

To-Do for Schools

Provide the CPA with the school’s attendance policy.

Instructions to CPA

- Determine if the school’s operating term (school year) is consistent with the State Board of Education Rule 6A.?
- Are the instructional availability (teaching hours) and attendance policies the same for scholarship students as non-scholarship students?
VI.D Other Procedures - MATERIAL

To-Do for Schools

Provide the CPA with the requested attendance records for the CPA’s selected sample.

Instructions to CPA

Using the sample selected for step IV.A, review the attendance records for each student to determine whether they meet the attendance policies of the school.
VI.E Other Procedures – MATERIAL

Due to Covid-19 additional guidelines have been established.

To-Do for Schools

If operating remotely, explain to the CPA how attendance records are maintained and assist the CPA with verification.

Instructions to CPA

Determining how to proceed is based on the school’s operating status.

School is Open and operating currently: Follow the existing instructions found in the 2019-2020 AUP instructions.

School is Closed and will not operate anymore during the 2019-2020 school year: Mark this section as a Material Exception and include an explanation for the assessment and description of the specific situation relating to the school.

School is operating remotely: Remote operating schools are maintaining attendance records either through the remote software or through some other process. Describe what form the attendance records are taken and ascertain the student’s presence by using the process the schools are using to track remote attendance online.
Specific Guidelines Governing the Reportability of Exceptions

Exceptions found while 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 during the third year in which that exception is reported and for each year thereafter that it remains uncorrected.
Emailing Instructions

• All Agreed Upon Procedures (AUP) reports **must be emailed** by the CPA to AUP@StepUpForStudents.org by September 15, 2020. Copies submitted by the school will not be accepted.

• Hardcopy reports will not be accepted.

• Corrective Action Plans (CAP) can be emailed from the school to AUP@StepUpForStudents.org
Resources Available

Available at StepUpForStudents.org

- Instruction
- Samples
- Reference Materials
- Webinars
- FAQ’s

Questions? email AUP@sufs.org

This Webinar will be available at:

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