

# SCHOOL FINANCIAL REPORT REQUIREMENT

## Florida School Choice Programs

March 15, 2022

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### Fiscal Accountability for Participating Schools Guidelines and Procedural Requirements Guide

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#### Overview

Florida Statute 1002.421(1)(q) requires schools participating in educational scholarship programs established pursuant to Chapter 1002, specifically, the Florida Tax Credit Scholarship, Family Empowerment Scholarship for Educational Options, Family Empowerment Scholarship for Students with Unique Abilities (formerly known as Gardiner and McKay scholarships<sup>1</sup>), and the Hope Scholarship (collectively, the “Scholarships”) and receiving more than \$250,000 in funds from the Scholarships awarded during the state fiscal year from July 1 of a calendar year to June 30 of the next calendar year (a “Fiscal Year”) to file a fiscal accountability report annually. The fiscal accountability report focuses on the use of the Scholarship funds and the financial procedures and controls in place at the schools.

The participating school must engage with an independent Certified Public Accountant (the “CPA”) firm currently licensed to perform attest engagements in Florida to 1) perform an Agreed-Upon Procedures (“AUPs”) engagement in accordance with the standards established by the American Institute of Certified Public Accountants in Statements on Standards for Attestation Engagements (SSAE No. 18 AT-C Section 105 and SSAE No. 19 AT-C Section 215), and 2) prepare an Independent Accountant’s Report on Applying Agreed-Upon Procedures (the “AUP Report”). The CPA’s staff must comply with the school’s policy for screening and managing its visitors.

The school is required to submit an original copy of the AUP Report to the state-approved nonprofit Scholarship Funding Organization (“SFO”) that provided it the majority of the Scholarships awarded during that Fiscal Year. The AUP Report is due to the SFO by September 15 following the end of that Fiscal Year.

The SFO must annually report to the Commissioner of Education by October 30 of that year: 1) a school’s failure to file the AUP Report, and 2) any Material Exceptions set forth in the AUP Report. Reportable Exceptions set forth in the AUP Report will be reviewed by 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 by the CPA in the third year and each year thereafter that it remains uncorrected.

The following revised AUPs were developed by eligible SFOs participating in a joint biennial review as required by Florida Statute 1002.395(6)(o)(1)(b) and include input from the accrediting associations that are members of the Florida Association of Academic Nonpublic Schools and the Florida Department of Education.

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<sup>1</sup> In the 2021-22 school year, the Gardiner Scholarship Program became part of the Family Empowerment Scholarship Program and was renamed Family Empowerment Scholarship for Students with Unique Abilities or “FES-UA”. In the 2022-23 school year all John M. McKay Scholarships for Students with Disabilities also became part of FES-UA and were administered by the SFOs.

## **The Agreed-Upon Procedures for the 2022-23 and 2023-24 school years**

### **I. School Eligibility**

- A. Obtain and include a copy of the compliance letter or other proof of eligibility from the Florida Department of Education.
- B. Determine whether the proof of eligibility covers the Fiscal Year and Scholarships for which the AUP is performed.
- C. Report any exceptions found as Material Exceptions.

### **II. Adequate Accounting System:**

- A. Identify and document the name of the accounting software or systems used to maintain the school's financial records.
- B. Determine if the accounting software or systems allows the school to record financial transactions conducted, including deposits and disbursements, in a complete and self-balancing accounting system. The software or system should be capable of generating a trial balance, financial statements, student account statements and other sub-ledger reports.
- C. If a separate non-self-balancing system for student account statements is used, determine whether it is regularly reconciled to the general ledger.
- D. Report any exceptions found as Material Exceptions.

### **III. Adequate System of Financial Controls:**

- A. Cash Balances:
  1. Determine and document whether the school's scholarship funds are held at a federally insured depository institution. If funds are not held at a federally insured depository institution, report as a Reportable Exception.
  2. Inspect three months of the school's statements (including the June 30th Fiscal Year-end statement) for all bank and investment accounts holding scholarship funds and determine whether the average daily account balance exceeded the FDIC limit of \$250,000 during the months' statements being inspected.
    - i. If the FDIC limit is exceeded, inspect and include documentation indicating that the school annually reviews the bank's rating by a reputable ratings provider, which may include, but is not limited to Bauer Financial, Fitch, Moody's, Standard and Poor's.
      - a. Determine if the rating is within the top two ratings of the provider's scale.
    - ii. If the school took no such action to protect the scholarship funds or the rating is below the top two ratings of the scale, report as a Reportable Exception.
- B. Bank Reconciliations:
  1. Using the bank statements inspected in step III (A) (2) above, inspect the associated bank reconciliations and determine whether they were each completed within 60 days of month-end, including documented independent review done by the school's management and that reconciling items related to bank errors were reported within the bank's notification timeframe.

2. Report any exceptions found as Material Exceptions.

C. Non-Education Related Expenses:

1. Scan the school's general ledger and identify if non-education related expenses (see Appendix 2) are accounted for separately from the school's education-related expenses.
2. Select a sample of 5 non-education related expenses and determine whether they are being identified and reported separately from education-related expenses.
3. Report any exceptions found as Material Exceptions.

D. Shared Expenses:

1. Inquire if the school shares expenses (i.e., administrative salaries, facilities costs) with another organization(s) (i.e., affiliated church, day care or other school).
2. If costs are shared scan the general ledger to determine if they are properly allocated and tracked separately. List the organization(s) and expense types shared.
3. Describe the methodology used to allocate shared expenses.
4. Report any exceptions found as Material Exceptions.

E. Internal Controls:

1. Inquire if the school has written policies or standard practices to adequately establish proper financial controls including segregation of duties and if 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
  - v. Shared Expenses - Costs shared by the school with another organization should be allocated between the organizations in a systematic and rational approach.
2. In the absence of written policies, briefly describe the standard practices used to establish proper financial controls over the transactions listed above.
3. Report any exceptions found as Material Exceptions.

F. Budgets and Financial Statements:

1. Inquire if an annual budget is prepared and approved by the school's governing body before the start of each school year.
2. Inquire if any budget amendments were made and approved by the school's governing body thereafter, and if actual results are periodically reviewed in comparison to budgeted amounts and reported to the school's governing body at least twice annually.
3. Inspect the financial sections of all minutes of the meetings of the school's governing body that occurred during the current school year, and those immediately preceding it, and determine adherence with step III(F)(1-2).
4. Report any exceptions found as Reportable Exceptions.

#### **IV. Adequate Process for Deposit and Classification of Scholarship Funds:**

- A. Document the total number of students participating in each of the Scholarships and the total value of scholarship funds received from each of the Scholarships.
- B. For Scholarship payments received as **Checks**:
1. Obtain the SFOs' Check Cashing Policies (the "Check Cashing Policies") and inquire if the school is following the Check Cashing Policies and complying with section 1002.421(1)(f)(2) F.S. including requiring the parent of each scholarship student to personally restrictively endorse the scholarship checks and depositing the checks into the school's bank account.
  2. Document the total number of students for whom a Scholarship is paid via check and the total value of scholarship funds received by check.
  3. From IV (B) (2), select a sample of the greater of 10 Scholarship checks or 5% of the Scholarship student population. The sample should include at least 2 students (*or one if only one student participating in a given program attends the school*) from each Scholarship program in which the school participates that distributes funds by check. Determine whether the Check Cashing Policies and statute referenced in step IV(B)(1) were followed by:
    - i. Comparing the parent or guardian's endorsement to the signature of the named payee in the student's school file and determining if it is reasonably similar.
    - ii. Tracing the checks being deposited into the school's bank account.
  4. Using the sample selected in section IV (B) (2) above, scan the general ledger to determine whether the scholarship funds received are classified as tuition, books and fees payments and recorded in the corresponding general ledger bank account. Also, determine whether the funds are posted to the corresponding student's tuition account/statement.
  5. Report any exceptions as Material Exceptions.
- C. For Scholarship payments received as **Electronic Funds**:
1. Document the total number of students for whom a Scholarship is paid via electronic funds transfer and the total value of scholarship funds received via electronic funds transfer.
  2. From IV (C) (1), select a sample of the greater of 10 electronic funds transfers or 5% of the Scholarship student population. The sample should include at least 2 students (*or one if only one student participating in a given program attends the school*) from each Scholarship program in which the school participates that distributes funds by electronic funds.
  3. Determine whether the sampled students' scholarship payments were recorded in accordance with the policies or standard practices identified in section III (E)(1)(i) and whether the funds are classified in the general ledger as tuition, books and fees payments and recorded in the corresponding general ledger bank account.
  4. Determine whether the funds are deposited into the school's bank account and posted to each student's tuition account/statement.
  5. For electronic funds received from AAA, determine whether the parent or guardian endorsement on the Payment Received Form is reasonably similar to the signature of the named payee on file with the school.
  6. Report any exceptions as Material Exceptions.

#### **V. Properly Expended Scholarship Funds for Education-Related Expenses:**

- A. By scanning the general ledger, identify and prepare a list of the total Fiscal Year (*July 1 – June 30*) education-related expenses by category (see Appendix 2). Include a summarized list with the report. Do not include non-education related expenses.

- B. Determine if the total of all education-related expenses for the Fiscal Year is equal to or greater than the dollar value of the Scholarship funds received.

If funds received exceed the total education-related expenses and are not returned, the school must prepare a detailed list of the education-related expenses that are (or will be) funded in the subsequent year with the expected date of use. Include the school prepared list with the AUP Report. Education-related expenses paid with previously “carried forward” funds may not be counted as education-related expenses for the current Fiscal Year.

- C. Using the list developed in V (A) above, select a sample of education-related expenses incurred during the Fiscal Year using the table below to determine sample size. For each item sampled, scan supporting documentation and determine whether the expenditure:

1. Is education-related.
2. Was properly authorized in accordance with the policies identified in III (E) above.
3. Is properly classified in the general ledger and was paid timely and accurately from the school’s bank account(s). For this purpose, paid timely means no more than 10% of the sample size is paid greater than 30 days after the due date. For payroll expenditures sampled, re-calculate pay based on corresponding time and attendance, pay rate and deductions records properly authorized in accordance with the policies identified in III (E) above.

Value of Total Education-Related Expenditures		Sample Size
From	To	
\$ 250,000	\$ 500,000	30
\$ 500,001	\$ 750,000	45
\$ 750,001	\$ 750,001+	60

Each of the categories listed in III (E) (1) (ii-v), if applicable, must be represented in the selected sample by at least 10% of the number of items selected.

**Combined Expenses:** When multiple schools are managed by a single system and cannot be identified separately in the general ledger, a separate sample for each school must be taken based on the total combined education-related expenses.

- D. Report any exceptions found in V (B-C) as Material Exceptions.

**VI. Other Procedures:**

- A. Document the total number of Scholarship and Non-scholarship students attending the school during the year being reported on.
- B. Obtain a copy of the tuition & fees schedule for the school year being reported on. Select a sample of 10 scholarship students or 5% of the total number of scholarship students (whichever is greater) to determine if the tuition and fees charged to the sampled students is consistent with the tuition and fees for non-scholarship students. Report any exceptions found as Reportable Exceptions.

- C. Obtain the school's calendar to determine if the school's operating term (school year) is consistent with State Board of Education Rule 6A-1.09512 of at least 170 actual school days and 540 net instructional hours for students in kindergarten, 720 net instructional hours for students in grades 1-3, and 900 net instructional hours for students in grades 4-12. Report any exceptions found as Material Exceptions.
- D. Obtain the school's attendance policy and document how they maintain attendance records. For schools operating remotely or hybrid, document the school's method for recording remote attendance.
- E. Using the sample selected from VI (A) scan the attendance records for each selected student and determine whether the school is complying with its attendance policy and recordkeeping requirement. Report any exceptions found as Material Exceptions.
- F. Without advance notice to the school of the student names, select 10 scholarship students and observe the students' presence in school that day. The sample should include at least 2 students (*or one if only one student participating in a given program attends the school*) from each Scholarship program in which the school participates. **This procedure must be done before the end of the school year being reported on.**
  - 1. Determine if the student's attendance was accurately recorded for the day.
  - 2. If the student is not present, determine whether the student is listed as absent on the school's attendance records.
- G. Report any exceptions found as Material Exceptions.

# **Appendix 1**

## **Scholarship Program Name Acronyms**

FTC - Florida Tax Credit Scholarship

FES-EO - Family Empowerment Scholarship for Educational Options

FES-UA - Family Empowerment Scholarship for Students with Unique Abilities

## **Scholarship Funding Organizations**

AAA – AAA Scholarship Foundation

SUFS – Step Up For Students

## Appendix 2

### Examples of Education-Related Expenses

- **Payroll**
  - Salaries for teachers and substitutes
  - Salaries for administration and office staff
  - Salaries for food service personnel
  - Salaries for custodial and maintenance staff
  - Salaries for tutoring, therapy and counseling
  
- **Payroll benefits and taxes**
  - Payroll taxes
  - Unemployment taxes
  - Workers' compensation
  - Employee health insurance and other benefits
  
- **Instructional supplies and equipment**
  - Classroom materials and course supplies
  - Testing fees
  - Library books and supplies
  - Technology equipment and software licensing fees
  
- **Office & Administration**
  - Office supplies
  - Postage
  - Printing and copying
  - Bank fees
  - Licenses and fees
  - Credit card fees
  - Payroll processing fees
  - Background checks
  - Accreditation fees
  - Audit, legal and other professional services
  
- **Facilities expenses**
  - Rent or mortgage payments
  - Utilities
  - Property insurance
  - Repairs and maintenance
  - Custodial supplies
  - Security equipment and services
  - Capital improvements

## Examples of Education-Related Expenses (continued)

- **Miscellaneous**
  - Graduation expenses
  - Education-related field trips
  - Parent/teacher meeting expenses
  - After school education
  - Standard transportation costs

## Non-Education Related Expenses (including but not limited to)

- Fundraising expenses and events
- Athletic programs and sporting events
- Senior trip expenses
- Summer camps
- Non-education related school trips
- Transportation costs for extracurricular activities
- School store and logo merchandise
- School sponsor shows and events
- School clubs
- After school care program costs
- Gift cards and promotional material
- Conferences, training and professional development for **administrative** personnel
- Advertising
- Bad debt expense

## **Appendix 3**

### **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 program: 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.

Material Exceptions will be reported to the Commissioner 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.

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.