

# SCHOOL FINANCIAL REPORT REQUIREMENT

## Florida School Choice Programs

March 15, 2020

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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, the Gardiner Scholarship, the John M. McKay Scholarships for Students with Disabilities, Family Empowerment Scholarship and the Hope Scholarship (the “Scholarships”), and receiving more than \$250,000 in funds from the Scholarships awarded during the 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.

This accountability report focuses on the use of the Scholarship funds and the financial procedures and controls in place at the schools. The report, in the form of Agreed-Upon Procedures (the “AUPs”), is to be completed by an independent, currently licensed, active Florida Certified Public Accountant (the “CPA”) with a firm license to perform attest engagements in the state. The CPA must ensure that staff visiting the school comply with the school’s policy for screening and managing visitors.

The AUPs are developed jointly by all state-approved nonprofit Scholarship Funding Organizations (SFO). A biennial review includes an SFO whose organization provided more than \$250,000 in scholarship funds to an eligible private school during the state fiscal year preceding the biennial review, along with input from the Florida Association of Academic Nonpublic Schools (FAANS) and the Florida Department of Education (the Department). The revised AUPs below were developed in accordance with the standards established by the American Institute of Certified Public Accountants in Statements on Standards for Attestation Engagements (AT-C Sections 105 and 215).

Each school receiving more than \$250,000 in Scholarships in a Fiscal Year is required to submit an original copy of the Independent Accountant’s Report on Applying AUPs (the “Report”) to the Scholarship Funding Organization (the “SFO”) that provided the school the majority of the Scholarships awarded during that Fiscal Year, by September 15 following the end of that Fiscal Year. However, a school receiving more than \$250,000 in Scholarship funds only through the John M. McKay Scholarships for Students with Disabilities must submit an original copy of the Report to the Department. Faxed copies will not be accepted and will be discarded upon receipt.

In return, the SFO or Department must report to the Commissioner of Education by October 30 of that year: 1) A school’s failure to file the Report; and 2) Any Material Exceptions set forth in the Report. Reportable Exceptions set forth in the Report will be reviewed by the SFO or Department, 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 Agreed Upon Procedures**

## **I. School Eligibility**

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

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

- A. Cash Balances:
  - 1. Verify if 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' 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 month's statements being inspected.
    - i. If the FDIC limit is exceeded, inspect any 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. If the school took no such action to protect the Scholarship Funds, report as a Reportable Exception.
      - b. If the rating is lower than the top two ratings on the scale, report as a Reportable Exception.
- B. Non-school Expenses:
  - 1. Scan the school's general ledger and inquire if another organization's (i.e., affiliated church or other school) expenses are disbursed from the school's bank account and if so, if they are being identified and/or tracked separately from the school's expenses.
  - 2. Select a sample of 5 expenses from the other organization(s) and determine whether they are being identified and reported separately from school expenses.
  - 3. Report any exceptions found as Material Exceptions.
- C. Internal Controls:
  - 1. Inquire 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.

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) above.
3. See associated procedures in step IV(B)(2) (*Student payments*) and V(B) (*Education related expenses*);
4. Report any exceptions found in steps III(C)(1-3) as Material Exceptions.

**D. Bank Reconciliations:**

1. Inquire if reconciliations of all bank accounts are completed within 60 days of each month end including a documented independent review done by the school's management and resolution of any reconciling items are in process prior to the Bank's deadline for reporting errors.
2. Using the bank statements inspected in step III(A)(2) above, inspect the associated bank reconciliations and determine whether they were completed within the guidelines outlined in III(D)(1) above.
3. Report any exceptions found in steps III(D)(1-2) as Material Exceptions.

**E. 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 fiscal year. Also inquire if any budget amendments were made and approved 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
2. 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(E)(1).
3. Report any exceptions found in steps III(E)(1-2) as Reportable Exceptions.

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

**A. For Scholarship payments received as checks:**

1. Obtain the SFOs' or the Department's Check Cashing Policies (the "Check Cashing Policies") and inquire if the school is following the Check Cashing Policies and complying with section 1002.395 (11)(b) F.S. (see attached) to include obtaining the guardian's signatures and depositing the check into the school's bank account.
2. Select a sample of the greater of 10 Scholarship students 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(A)(1) were followed. Determine whether the parent or guardian's endorsement is reasonably similar to the signature in the student's school file of the named payee or of their power of attorney (granted to a person that is not related to the school).
3. Using the sample selected in section IV(A)(2) above, obtain the sample students' Scholarship checks and determine whether the funds are classified in the 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 whether the funds are deposited into the school's bank account.
4. Report any exceptions as Material Exceptions.

**B. For Scholarship payments received as electronic funds:**

1. Select a sample of the greater of 10 Scholarship students 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.
2. Determine whether the sampled students' scholarship payments were recorded in accordance with the policies or standard practices identified in section III (C)(1)(i) and whether the funds are classified in the general ledger as tuition, books and fees payments and the corresponding general ledger bank account.

3. Determine whether the funds are posted to each student's tuition account/statement and whether the funds are deposited into the school's bank account.
4. 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.
5. Report any exceptions as Material Exceptions.

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

- A. Obtain and document the total dollar value of all Scholarship funds received for students attending the school.
- B. By scanning the general ledger, identify and prepare a list of the total Fiscal Year (*July 1 – June 30*) Education-Related Expenses by category. Include the list with the report. Education-Related Expense categories 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. Determine if the total of all Education-Related Expenses for the school is equal to or greater than the dollar value of the Scholarship funds received.
- C. Using the list developed in step V(B) above, select a sample of Education-Related Expenditures incurred during the Fiscal Year using the table below. For each item sampled, scan supporting documentation and determine whether the expenditure is Education-Related, was properly authorized in accordance with the policies identified in step III(C) above, 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 step III(C) above.

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

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.

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 should be taken based on the total combined education related expenses.

Report any exceptions found as a result of applying procedures in Section V(B-C) as Material Exceptions.

**VI. Other Procedures:**

- A. Obtain a copy of the tuition & fees schedule for the school year being tested. Using the sample selected for step IV(A or B) depending on the type of payment, determine the tuition and fees charged the sample students is consistent with the tuition and fee policy for all students. Report any exceptions found as Reportable Exceptions.
- B. Obtain the school's student attendance policy. 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<sup>1</sup>.

<sup>1</sup> <https://www.flrules.org/gateway/ruleno.asp?id=6A-1.09512>

- C. Determine if the attendance policies for scholarship students are consistent with the policies for all students. . Report any exceptions found as Material Exceptions.
- D. Using the sample selected for step IV(A or B) depending on the type of payment, observe the attendance records for each selected student and determine whether they meet the school's attendance policy. Report any exceptions found as Material Exceptions.
- E. Without advance notice to the school of the sample of students, select 10 students from the Scholarship payment history and observe the student's 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. If the student is not present, determine whether the student is listed as absent on the school's attendance record. Report any exceptions found as Material Exceptions.

### **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. All Material Exceptions will be reported to the Commissioner of Education by the SFO or Department 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 or Department, 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.

Independent Accountant's Report  
on Applying Agreed-Upon Procedures

To *(name of Scholarship Funding Organization or Florida Department of Education, whichever is applicable)*:

We have performed the procedures enumerated below, which were agreed to by *(name of Scholarship Funding Organization or Florida Department of Education, whichever is applicable)*, solely to assist the specified parties in evaluating *(name of school)*'s compliance with the requirements of Florida Statute 1002.421(1)(q) during the school year ended *(Date)* *(Name of school)*'s management is responsible for compliance with those requirements. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

*(List procedures and findings).*

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institution of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the requirements of Florida Statute 1002.421(1)(q) during the school year ended *(Date)*. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of *(name of Scholarship Funding Organization, if applicable, Florida Department of Education and (Name of School)*'s management and is not intended to be and should not be used by anyone other than these specified parties.

*[Signature]*

*Firm address*

*[City, State]*

*[Date]*

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# The 2019 Florida Statutes

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Title XLVIII  
K-20 EDUCATION  
CODE

Chapter 1002  
STUDENT AND PARENTAL RIGHTS AND EDUCATIONAL  
CHOICES

## 1002.395 Florida Tax Credit Scholarship Program.—

### (11) SCHOLARSHIP AMOUNT AND PAYMENT.—

(b) Payment of the scholarship by the eligible nonprofit scholarship-funding organization shall be by individual warrant made payable to the student's parent or by funds transfer, including, but not limited to, debit cards, electronic payment cards, or any other means of payment that the department deems to be commercially viable or cost-effective. If the payment is made by warrant, the warrant must be delivered by the eligible nonprofit scholarship-funding organization to the private school of the parent's choice, and the parent shall restrictively endorse the warrant to the private school. An eligible nonprofit scholarship-funding organization shall ensure that the parent to whom the warrant is made restrictively endorsed the warrant to the private school for deposit into the account of the private school or that the parent has approved a funds transfer before any scholarship funds are deposited.



AAA's expectation is that your CPA will follow the Agreed-Upon Procedures as presented. However, we understand that the unexpected events caused by COVID-19 may have an impact on their ability to do that. Subsequently, we are providing the following acceptable addendums or alternatives for certain procedures:

**For schools providing distance learning:**

Addendum to Procedure IV(A)(2) If any AAA scholarship checks are/were being held for parent endorsement longer than the 90-day limit due to the school being closed, inquire how the checks are/were stored during the closure and the school's plan for resumption of compliance with standard check cashing policies. Include the information with the AUP report. Determine whether the storage procedure sufficiently protected the asset and whether the plan for resumption of compliance is reasonable.

Addendum to Procedure VI(B) Obtain a copy of the school's distance learning plan from the school administrator. This plan should include how attendance is being recorded; what the student schedule each day looks like; how teachers and students will connect during the closure; and the mode of instruction used (e.g. type of technology used). The plan must be on school letterhead and signed by the school administrator. Include a copy of the plan with the AUP report.

Alternative to Procedure VI(E) Inquire whether an observation may be made in real-time of each student's attendance during the distance learning school day. If so, proceed with the procedure as presented. If not, request the attendance records for the selected students through April 30, 2020, then contact AAA for further instructions.

**For schools not providing distance learning:**

Addendum to Procedure IV(A)(2) If any AAA scholarship checks are/were being held for parent endorsement longer than the 90-day limit due to the school being closed, inquire how the checks are/were stored during the closure and the school's plan for resumption of compliance with standard check cashing policies. Include the information with the AUP report. Determine whether the storage procedure sufficiently protected the asset and whether the plan for resumption of compliance is reasonable.

Alternative to Procedure VI(B) Obtain an updated school calendar from the school administrator indicating its plan to make up lost instructional days due to the school building closures. Determine if the school's updated operating term (revised 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. Include a copy of the plan with the AUP report.

Note: The CPA should conduct all other attendance related testing based on the updated school calendar.

If you or your CPA needs additional guidance for these or any other procedures, they must contact AAA directly via email to [AUP@aaascholarships.org](mailto:AUP@aaascholarships.org) for assistance.