

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-012
August 2018

STEP UP FOR STUDENTS, INC.



Sherrill F. Norman, CPA
Auditor General

President and Board of Directors

During the period March 2016 through February 2017, Doug Tuthill served as President for Step Up For Students, Inc. and the following individuals served as Members of the Board of Directors:

John Kirtley, Chair
Julio Fuentes through July 8, 2016^a
Allison Hertog
Terry Jove from August 11, 2016^a
Alfred "Al" Lawson Jr.
Richard Outram
Paul Sherman
Curtis Stokes

^a Position vacant July 9, 2016, through August 10, 2016.

The team leader was Tracy S. Smith and the audit was supervised by Derek H. Noonan, CPA.

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

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STEP UP FOR STUDENTS, INC.

SUMMARY

This operational audit of Step Up For Students, Inc. (Step Up) focused on selected administrative activities and management's performance related to the Florida Tax Credit Scholarship (FTC) Program and the Gardiner Scholarship Program, including Step Up's compliance with applicable laws and rules. The audit also included a follow-up on the finding noted in our report No. 2017-031. Our audit disclosed the following:

Finding 1: Step Up did not always properly evaluate the household income of FTC Program scholarship applicants to ensure that scholarships were only awarded to eligible students.

Finding 2: Step Up needs to develop and maintain comprehensive investment policies and procedures to enhance the protection of program funds while increasing investment earnings.

Finding 3: Step Up procedures did not require and ensure exempt employees maintained records of time worked or require supervisory approval of such records.

RELATED INFORMATION

Section 11.45(2)(k), Florida Statutes, requires our audit to include a determination of Step Up's compliance with certain Florida Tax Credit Scholarship Program provisions. Except for the noncompliance cited in Finding 1 relating to ineligible scholarship recipients, our audit procedures and tests of selected Step Up records and accounts found that Step Up generally complied with the applicable provisions of Section 1002.395, Florida Statutes.

Section 1002.385(14)(a), Florida Statutes, provides that, as part of our audit, we are to verify the total amount of students served and eligibility of reimbursements made by Step Up for the Gardiner Scholarship Program and transmit that information to the Florida Department of Education. Our audit procedures disclosed that, for the Gardiner Scholarship Program during the period March 2016 through February 2017, Step Up served 8,047 students and paid Program scholarship awards totaling \$51,369,111 for those students. In addition, our tests of Step Up records found that the Gardiner Scholarship Program scholarship payments selected for audit were eligible Program disbursements.

BACKGROUND

Step Up For Students, Inc. (Step Up) is a nonprofit scholarship funding organization (SFO), incorporated on February 18, 2000, and operating pursuant to State law.¹ Step Up's stated mission is to help public education fulfill the promise of equal opportunity by empowering parents to pursue and engage in the most appropriate learning options for their children, with emphasis on families who lack the financial resources to access these options. Step Up is a State-approved SFO that helps administer two scholarship programs for Florida schoolchildren: the Florida Tax Credit Scholarship (FTC) Program for

¹ Section 1002.395(2)(f), Florida Statutes.

low-income families and the Gardiner Scholarship Program² for children with certain special needs. The governing body of Step Up is the Board of Directors (Board), composed of seven to ten members who each serve 1 to 3-year terms. New members are elected by the Board. The Board sets policy, approves strategic plans and related resource allocations, and is responsible for the performance of the organization as a whole; whereas, the President is responsible for day-to-day operations.

State law³ established the FTC Program to expand educational opportunities for children of families with limited financial resources. The FTC Program provides that eligible nonprofit SFOs may solicit and receive eligible contributions. Such contributions entitle donors to a 100 percent State tax credit against corporate income tax, insurance premium tax, alcoholic beverage excise tax, direct-pay sales tax, and oil and gas severance tax. State law⁴ requires the SFOs to use the contributions received for eligible students' private school tuition, transportation to public schools outside their districts, or transportation to lab schools.⁵ During the period March 2016 through February 2017, five donors contributed approximately 43 percent of the contributions to Step Up. Table 1 shows the contribution amounts received by Step Up from those five donors during that period.

Table 1
Step Up FTC Program
Top Five Donor Contribution Amounts
For the Period March 2016 Through February 2017

	Amount	Percentage of Total Contributions
Donor 1	\$125,000,000	23.9%
Donor 2	60,000,000	11.5%
Donor 3	21,000,000	4.0%
Donor 4	9,400,000	1.8%
Donor 5	8,000,000	1.5%

Source: Step Up records.

State law⁶ requires the Florida Department of Education (FDOE) to determine, and annually verify, the eligibility of the SFOs, and the FDOE recognized Step Up as an eligible SFO for the July through June 2015-16 and 2016-17 fiscal years. Table 2 shows Step Up's FTC Program activity during March 2015 through February 2016 and March 2016 through March 2017.

² Prior to July 1, 2016, the Gardiner Scholarship Program was referred to as the Personal Learning Scholarship Accounts Program.

³ Section 1002.395(3)(a), Florida Statutes.

⁴ Section 1002.395(6)(d), Florida Statutes.

⁵ Pursuant to Section 1002.395(12)(a)1.b., Florida Statutes (2016), the scholarship amount awarded to a student enrolled in a public school located outside the district in which the student resides or in a lab school, as defined in Section 1002.32, Florida Statutes, was limited to \$500. Chapter 2017-166, Laws of Florida increased the amount to \$750, effective July 1, 2017.

⁶ Section 1002.395(9)(b), Florida Statutes.

**Table 2
FTC Program Activities**

	March 2015 - February 2016	March 2016 - February 2017
Contributions collected	\$417,588,820	\$523,160,248
Total scholarships paid	\$404,458,840	\$508,683,331
Number of students awarded tuition scholarships	91,218	115,447
Number of private schools paid	1,666	1,766
Total transportation scholarships paid	\$3,625	\$8,750
Number of students awarded transportation scholarships	28	62

Source: Step Up records.

For the 2015-16 and 2016-17 fiscal years, the maximum scholarship awards for eligible students' private school tuition were \$5,677 and \$5,886, respectively, and the maximum transportation scholarship awards were \$500. During the period March 2016 through February 2017, over 56 percent of the FTC Program students served by Step Up resided in five counties. Table 3 shows the number of FTC Program students served by Step Up in each of those counties during that period.

**Table 3
FTC Program
Top Five Counties by Number of Students Served
For the Period March 2016 Through February 2017**

	County	Number of Students Served
1	Miami-Dade	29,864
2	Orange	11,213
3	Broward	10,541
4	Duval	8,391
5	Hillsborough	5,180

Source: Step Up records.

State law⁷ established the Gardiner Scholarship Program to help meet the educational needs of students who have a specified intellectual disability such as autism, cerebral palsy, or Down syndrome. State law requires Gardiner Scholarship Program moneys to be used for:

- Instructional materials including digital devices and other assistive technology devices.
- Curriculum and any required supplemental materials.
- Specialized services by approved providers selected by the parent.
- Enrollment in an eligible private school, an eligible postsecondary institute, an authorized private tutoring program, or a virtual instruction program offered by an FDOE-approved provider.
- Examination fees for specified tests and assessments.
- Contributions to the Prepaid College Program.

⁷ Section 1002.385(1), Florida Statutes.

- Contracted services provided by a public school.
- Tuition and fees for part-time tutoring services provided by a person who holds a valid Florida educator's certificate.

As an SFO participating in the FTC Program, Step Up qualified to participate in the Gardiner Scholarship Program. According to Step Up accounting records for the period March 2016 through February 2017, Step Up received \$78,696,644 in Gardiner Scholarship Program funds from the FDOE and \$55,696 from another SFO, transferred \$52,696 to another SFO. The scholarship award amounts ranged from \$2,844 to \$20,924, depending on the student's date of application, county of residence, grade level, and disability type.

Table 4 shows the amounts of Gardiner Scholarship Program funds received and disbursed and the number of students awarded scholarships by Step Up during March through February of the 2014-15, 2015-16, and 2016-17 years.

**Table 4
Gardiner Scholarship Program Activity**

	March 2014 – February 2015	March 2015 – February 2016	March 2016 – February 2017
Program funds received	\$12,567,833	\$43,402,394	\$78,752,340
Program funds disbursed	1,825,432	22,391,090	51,369,111
Number of students awarded scholarships	1,250	3,358	8,047

Source: Step Up records

Table 5 shows the five counties with the greatest number of Gardiner Scholarship Program students served by Step Up during the period March 2016 through February 2017 and the number of students served in each of those counties.

**Table 5
Gardiner Scholarship Program
Top Five Counties by Number of Students Served
For the Period March 2016 Through February 2017**

	County	Number of Students Served
1	Miami-Dade	1,101
2	Orange	724
3	Broward	598
4	Duval	478
5	Polk	450

Source: Step Up records.

FINDINGS AND RECOMMENDATIONS

Finding 1: Florida Tax Credit Scholarship Program Eligibility

To be eligible for a scholarship from the FTC Program, State law⁸ requires students to meet one or more of the following criteria:

- Be listed on the direct certification list⁹ or have household income that does not exceed 185 percent of the Federal poverty level.
- Be currently placed, or during the previous State fiscal year placed, in foster care or in out-of-home care.
- Have household income greater than 185 percent of the Federal poverty level up to 230 percent of the Federal poverty level for the 2015-16 school year, or up to 260 percent of the Federal poverty level for the 2016-17 school year. Scholarship awards based on this criterion are calculated in reduced amounts depending on the household income and respective poverty level.

According to State law, “household income” has the same meaning as the term “income” defined in the income eligibility guidelines (IEG) under the National School Lunch Program and published in the Federal Register by the United States Department of Agriculture (USDA). In addition, the USDA annually publishes the *Eligibility Manual for School Meals - Determining and Verifying Eligibility (Eligibility Manual)*, which provides guidance for determining eligibility based on household income. For example, the *Eligibility Manual* provides that income determinations for households that receive income from multiple sources and with varying frequencies be annualized by multiplying:

- Weekly income by 52.
- Bi-weekly income (received every 2 weeks) by 26.
- Semi-monthly income (received twice a month) by 24.
- Monthly income by 12.

According to Step Up personnel, information technology personnel programmed the Scholarship Administration System (SAS) with the annual Federal poverty amounts divided by 12 to convert the amounts to monthly thresholds based on household size. Scholarship applicants use the SAS to complete online applications, which identify the household size and gross monthly income amounts, and to upload documentation to support the household size and application income amounts. Step Up Application Processors review the applications and supporting documentation to verify that the reported household monthly income amounts reported by the applicants agree with the amounts on the uploaded documentation. The SAS automates a comparison of the application household monthly income to the programmed monthly Federal poverty levels to determine whether students are eligible for the FTC Program scholarship awards.

⁸ Section 1002.395(3) and (12), Florida Statutes.

⁹ Section 1002.395(2)(c), Florida Statutes, defines “direct certification list” as the certified list of children who qualify for certain public assistance programs, including the food assistance program, the Temporary Assistance to Needy Families Program, or the Food Distribution Program on Indian Reservations provided to the FDOE by the Florida Department of Children and Families.

To assist with determining award eligibility based on household income, Step Up also established an *Application Processing Manual*, which requires an applicant’s stated monthly income be supported by documentation for the respective income frequency (e.g., four pay stubs to support weekly earnings and two pay stubs to support bi-weekly earnings). While the *Eligibility Manual* specifies that self-employment and other wages be included in household income, the *Application Processing Manual* requires household income to include self-employment net income and is silent regarding inclusion of self-employment wages in calculating household income eligibility.

As part of our audit we evaluated whether Federal poverty level information was properly entered into the SAS and used to determine scholarship eligibility based on household income. Our comparison of IEG household size income eligibility thresholds to the corresponding SAS data fields identified certain differences. In response to our inquiries, Step Up personnel indicated that household income eligibility information programmed in the SAS was outdated, which resulted in certain inaccurate award percentage tiers and related scholarship awards. Further, according to Step Up personnel, Step Up had not established procedures to review and approve the SAS data fields to confirm that Federal poverty level information was properly updated and entered into the SAS and used for determining scholarship eligibility. Table 6 summarizes the resultant scholarships over and under awarded for the 2015-16 and 2016-17 fiscal years, as confirmed by Step Up personnel.

Table 6
Summary of FTC Program Scholarship Award Differences
Based on Incorrect Data Field Information

Scholarships	2015-16 Fiscal Year		2016-17 Fiscal Year		Total	
	Students	Amount	Students	Amount	Students	Amount
Over Awarded	151	\$322,170	97	\$97,590	248	\$419,760
Under Awarded	3	\$ 5,677	29	\$47,912	32	\$ 53,589

Source: Step Up records.

We also examined Step Up records supporting 60 selected scholarship recipients who received FTC Program awards totaling \$286,421 of the total scholarships totaling \$508.7 million during the period March 2016 through February 2017 to determine whether Step Up properly awarded FTC Program scholarships based on the statutory eligibility requirements. In addition to the scholarship awards summarized in Table 6, we determined that:

- For 11 scholarship recipients,¹⁰ with reported household income supported by either four weekly pay stubs or two bi-weekly pay stubs as required by Step Up’s *Application Processing Manual*, Step Up Application Processors did not determine the Federal poverty levels awards based on *Eligibility Manual* guidance for annualizing household income. When properly annualized, the 11 scholarship recipients’ household income exceeded the respective household income Federal

¹⁰ The 11 scholarship recipients received awards ranging from \$2,839 to \$5,677 and totaling \$38,127.

poverty levels determined by Step Up by \$1,124 to \$5,613, and scholarship award differences ranged from \$1,260 to \$5,677 and totaled \$35,184 more than what should have been awarded.¹¹

- The household income of 6 scholarship recipients was received from different sources and in different frequencies. Rather than calculating the poverty levels in accordance with the *Eligibility Manual* and annualizing each income source to determine the household income, the Step Up Application Processors totaled the pay stub amounts as a single month's income.¹² As a result, the annualized household income of the scholarship recipients exceeded the Federal poverty household annual income thresholds by \$505 to \$5,441 and the recipients were not eligible for the scholarships awarded ranging from \$2,839 to \$5,677 and totaling \$25,504.
- The household income of 6 scholarship recipients was based on self-employment net income (i.e., income after deducting business expenses including wages) without consideration of the household's self-employment wages. Once the respective net income and self-employment wages were combined, the household income of the 6 recipients exceeded the applicable Federal poverty household income thresholds by \$3,540 to \$4,971 and the 6 recipients were not eligible for the scholarships awarded ranging from \$4,473 to \$5,677 and totaling \$29,247.
- Step Up initially deemed 3 scholarship recipients eligible because the applicants indicated that a household member received benefits from a public assistance program. However, although Step Up personnel requested, evidence was not obtained to verify these benefits. Absent such evidence, Step Up records did not demonstrate the eligibility of the 3 recipients who received awards ranging from \$5,535 to \$5,886 and totaling \$17,098.

In response to our inquiries, Step Up personnel indicated that, since the 2015-16 school year was already finished when we brought this matter to their attention in December 2017, no action would be taken regarding the incorrect 2015-16 fiscal year scholarship awards. Step Up credited the amounts of the 2016-17 fiscal year scholarships under awarded to the applicable students' scholarship accounts and, as of December 2017, Step Up personnel were reviewing the amounts over awarded to determine the appropriate course of action.

According to Step Up personnel, procedures for the 2017-18 fiscal year were revised to update household income thresholds in the SAS to agree with the Federal poverty levels, additional training will be provided to personnel who process applications, and system edit controls will be implemented to prevent incorrect awards. Absent documented consideration of appropriate eligibility criteria, such as frequencies in household income and self-employment wages, there is an increased risk that scholarships will be awarded to ineligible recipients or for incorrect amounts.

Recommendation: Step Up should enhance procedures to properly determine household income and ensure that FTC Program scholarships are only awarded to eligible students in the appropriate amounts. In addition, Step Up should implement effective system edit controls to

¹¹ For example, one applicant's 2015-16 school year household income was supported by two bi-weekly pay stubs of \$1,923 each, or \$3,846 for the month. Since the \$3,846 was less than a twelfth (i.e., one month) of the Federal household annual poverty level (\$46,207), Step Up deemed the student eligible for a 50 percent scholarship. However, properly annualizing the bi-weekly \$1,923 pay stub yields a household income of \$49,998, which exceeds the Federal household annual poverty level and resulted in an over award of \$2,839 to the student for the 2015-16 school year.

¹² For example, one 2015-16 school year application for 2 students included bi-weekly household income of \$1,321 and semi-monthly income of \$152. Rather than annualize the income as required, the Step Up Application Processor added the two bi-weekly amounts and two semi-monthly amounts together for a total monthly income of \$2,946, which was less than the \$3,098 household income threshold. However, annualizing the income by multiplying the \$1,321 bi-weekly amount by 26 and multiplying the \$152 semi-monthly amount by 24 yields an annual income of \$37,994, which is \$827 higher than the Federal poverty household annual income threshold of \$37,167. Consequently, the two students were not eligible for the scholarships totaling \$11,354 awarded by Step Up.

prevent incorrect scholarship awards. Such enhancements should include documented, independent review of the information entered into the SAS data fields to confirm the accuracy of the scholarship eligibility determination and award amount. In addition, Step Up should identify and report to the FDOE all incorrect 2015-16 and 2016-17 fiscal year FTC Program scholarship awards and request direction regarding how to remedy those awards.

Follow-Up to Management's Response

Management indicated in the written response, regarding the 11 scholarship recipients awarded \$35,184 more than what should have been awarded and the 6 ineligible scholarship recipients awarded \$25,504, that Step Up followed the USDA's definition of income and did not agree eligibility was incorrectly determined. Notwithstanding this response, Step Up did not follow the USDA Eligibility Manual requirements for calculating annual household income for those scholarships. As such, we continue to recommend that Step Up enhance procedures to properly determine household income and ensure that FTC Program scholarships are only awarded to eligible students in the appropriate amounts.

Finding 2: Investment Program – Policies and Procedures

A comprehensive investment policy describes the parameters for investing funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored.¹³ Such a policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of program funds, making it the most important element in an investment program. To maintain the relevance of the policy, procedures should be established to review and update the policy annually depending on projected cash needs.

Although not specific to Step Up, State law¹⁴ provides useful investment policies that require local governments to establish an investment policy for any funds in excess of the amounts needed to meet current expenses. State law¹⁵ specifically requires scholarship funding organizations (SFOs) to establish and maintain a separate account for each Gardiner Scholarship Program scholarship recipient and, for each account, maintain a record of the accrued interest retained in the account and available only for authorized program expenditures.

During the period March 2016 through February 2017, the Step Up's bank account statements for the FTC and Gardiner Scholarship Programs indicated a low monthly balance of \$24.6 million in August 2016 and a high monthly balance of \$88.4 million in February 2017. Also, during that period, Step Up invested FTC Program moneys in Treasury bills until scholarship disbursements were made and earned interest totaling \$224,574 on those investments. However, Step Up did not place Gardiner Scholarship Program moneys in an interest-bearing account or invest those moneys in other financial instruments during the period. Monthly bank statements for Gardiner Scholarship Program moneys for the period March 2016 through February 2017 indicated a low monthly balance of \$23.8 million in August 2016 and a high monthly balance of \$78.7 million in October 2016. In response to our inquiries, Step Up personnel indicated that procedures had not been established to invest Gardiner Scholarship Program moneys because computer software had not been acquired or developed to allocate any earned interest to

¹³ Government Finance Officers Association Best Practices.

¹⁴ Section 218.415, Florida Statutes.

¹⁵ Section 1002.385(12)(e), Florida Statutes.

individual student accounts. According to an analysis prepared by the Step Up Chief Financial Officer, Step Up could have earned interest of \$121,600 if idle Gardiner Scholarship Program moneys had been invested in Treasury bills during the period March 2016 through February 2017.

Step Up's investment policy provides that capital preservation and liquidity are the policy objectives; investment maturities are limited to 1 year; and permissible investments include, for example, money market funds and Treasury bills. While Step Up's investment policy contains several useful requirements for administering an investment program, the policy could be further enhanced by the development and maintenance of comprehensive investment policies and procedures that are reviewed and updated annually depending on cash needs. Such policies and procedures could require that:

- Effective documented investment monitoring procedures be implemented to provide assurance that investments of idle funds are made timely and consistently with Step Up-approved investment policy strategies based on the nature and amount of available idle program funds and scholarship disbursement projections.
- Investments be made with judgment and care, considering the probable safety of investment capital as well as the probable income to be derived from the investment. Such requirements should also clearly communicate that persons, responsible for managing Step Up's investment portfolio held in trust, are obligated to honesty and integrity in fulfilling these responsibilities.
- Step Up personnel responsible for making investment decisions have a sufficient understanding of the investment products and the expertise to manage them. Attaining and maintaining this understanding and expertise should include appropriate financial background, which may include training for complex types of investments, for managing the investment portfolio and ensuring that liquidity needs are met.
- The amount invested in any one issuer be limited to reduce the concentration of credit risk. Appropriate diversification of Step Up's available investment portfolio to the extent practicable is useful to control the risk of loss resulting from over-concentration of investments in a specific maturity, issuer, or bank through which financial instruments are bought and sold.
- Appropriate arrangements be made for holding Step Up investments. For example, as applicable:
 - Securities should be held with a third party and all securities purchased by, and all collateral obtained by, Step Up should be properly designated as an asset of Step Up.
 - No withdrawal of securities, in whole or in part, should be made from safekeeping, except by an authorized Step Up staff member.
 - Securities transactions between broker-dealers and custodians involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis to ensure that custodians have the security or money, as appropriate, in hand at the conclusion of the transaction.

The development and maintenance of comprehensive investment policies and procedures specific to the FTC and Gardiner Scholarship Programs would provide additional assurance that investments will be made consistent with Step Up intents and good business practices and reduce the risk of inappropriate decisions regarding investment purchases and sales transactions. Implementation of a well-designed comprehensive investment policy would increase investment earnings, while remaining committed to the fiduciary care of program funds, and result in the availability of additional scholarship funding. In addition, the investment of idle Gardiner Scholarship Program moneys and appropriate earned interest allocations to individual student accounts would help ensure compliance with State law and that scholarship recipients benefit from any interest earnings associated with their awards.

Recommendation: To adequately protect idle funds while increasing investment earnings, we recommend that Step Up develop and maintain comprehensive investment policies and procedures. Such policies and procedures should require investments be made with judgment and care, training be provided for those responsible for investment decisions, appropriate arrangements be established for holding Step Up investments, limits on amounts that may be invested with any one issuer be specified, and documented monitoring of investments be performed. Step Up management should annually review and update the policies and procedures based on projected cash needs. Additionally, Step Up should invest idle Gardiner Scholarship Program moneys and properly allocate any earned interest to the individual student accounts in accordance with State law.

Finding 3: Payroll Processing – Time Records

Effective internal controls require that time records document the time worked and leave used by employees and also require supervisory approval of such time to ensure that compensation payments are appropriate and leave balances are accurate. Step Up paid exempt employees¹⁶ on a payroll-by-exception basis whereby employees are paid a fixed authorized gross amount for each payroll period unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

During the period March 2016 through February 2017, Step Up had 118 exempt employees, including the Director of Professional Development, Director of Policy and Public Affairs, and Student Learning Coordinators, who worked onsite at the Step Up administrative offices in Jacksonville or St. Petersburg. In addition, during that period, Step Up had 27 other exempt employees, including the Senior Director of Development, Development Officers, Director of Marketing, and Managers of Community Outreach, who worked from home in Florida, Georgia, or Pennsylvania. Step Up compensated exempt employees a total of \$8.4 million during that period.

In response to our inquiries, Step Up personnel indicated that supervisors do not monitor the daily attendance of subordinates and that, because exempt employees receive a fixed amount of pay each pay period, there is no risk of over or under payment. According to Step Up personnel, supervisors monitor the work activities of subordinates, based on work assignments completed, and electronically document supervisory review and approval of leave taken by subordinates and, because employees work at different speeds, monitoring completion of work assignments is more important than monitoring daily attendance.

Notwithstanding this response, Step Up had not established policies or procedures to require exempt employees to prepare time sheets or other records to document their time worked. Without such, there is limited assurance that exempt employee services were provided consistent with Step Up expectations. In addition, without appropriate records of time worked and supervisory review, there is an increased risk that employees may be incorrectly compensated, employee leave balances may not be accurate, and Step Up records may not be sufficiently detailed in the event of a salary or leave dispute.

¹⁶ Step Up classifies employees as either “salaried” or “hourly,” and the “salaried” employees are the exempt employees.

Recommendation: Step Up should establish policies and procedures for exempt employees to report time worked and implement procedures requiring supervisors to document the review and approval of such time.

Follow-Up to Management’s Response

In the written response, Management respectfully disagreed with this finding and described various practices to document efforts to monitor exempt employees’ work efforts and leave usage. Notwithstanding this response, the point of our finding was, given Step Up’s responsibility to monitor exempt employee attendance and time worked and the significant costs (\$8.4 million for the audit period) associated with these services, records of attendance and time worked by exempt employees, reviewed and approved by applicable supervisors, would provide crucial additional assurances regarding the accuracy of employee leave records and that the services provided by exempt employees were consistent with management’s expectations, and also provide more reliable records in the event of a salary or leave dispute. Accordingly, we continue to recommend that Step Up require exempt employees to prepare time reports and also require supervisory personnel to certify the accuracy of the time reported as worked by exempt employees.

RELATED INFORMATION

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

In addition, as also described in the **OBJECTIVES, SCOPE, AND METHODOLOGY** section of this report, we performed procedures to verify the number of students who received Gardiner Scholarship Program scholarships during the period March 2016 through February 2017 and examined documentation for selected scholarship payments to determine whether the payments were eligible program disbursements. Our procedures disclosed that, during that period, 8,047 students received Gardiner Scholarship Program scholarships totaling \$51,369,111. Our tests of Step Up records found that the Gardiner Scholarship Program scholarship payments selected for audit were eligible Gardiner Scholarship Program disbursements.

PRIOR AUDIT FOLLOW-UP

Step Up management had taken corrective actions for the finding included in our report No. 2017-031.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. State law¹⁷ requires us to conduct annual operational audits of the accounts and records of scholarship funding organizations (SFOs) participating in the Florida Tax Credit Scholarship (FTC) and Gardiner Scholarship Programs.¹⁸

We conducted this operational audit from March 2016 to December 2017 in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of Step Up focused on selected administrative activities and management's performance related to the FTC and Gardiner Scholarship Programs, including Step Up's compliance with applicable laws and rules. The overall objectives of the operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, including applicable provisions of Sections 1002.385 and 1002.395, Florida Statutes; rules; regulations; contracts; grant agreements; and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, the deficiency noted in our report No. 2017-031.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those

¹⁷ Sections 11.45(2)(k) and 1002.385(14)(a), Florida Statutes.

¹⁸ Sections 1002.385 and 1002.395, Florida Statutes.

charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of March 2016 through February 2017, and selected Step Up actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed applicable laws, rules, regulations, and Step Up policies and procedures applicable to the FTC and Gardiner Scholarship Programs and interviewed Step Up personnel to gain an understanding of Step Up's scholarship-related operations and evaluated the adequacy of the operations.
- Obtained an understanding of Step Up's internal controls and evaluated the effectiveness of key FTC and Gardiner Scholarship Program processes, policies, and procedures for ensuring compliance with significant governing laws, economic and efficient operations, reliability of records and reports, and the safeguarding of assets.
- Determined whether the 20 Step Up bank accounts used for FTC and Gardiner Scholarship Program moneys for the audit period were administered through a qualified public depository pursuant to Section 1002.395(14), Florida Statutes, and whether separate accounts were established for scholarship and operating funds as required by Section 1002.395(6)(k), Florida Statutes. We also determined whether Step Up personnel periodically reviewed banking agreements for sufficiency of the safeguards provided.
- Assessed the sufficiency of Step Up's controls for electronic transfers and for transmitting funds via the Automated Clearing House for recipients of Gardiner Scholarship Program scholarships.
- Examined Step Up's records for the audit period to identify any investments and determined whether Step Up had developed and maintained comprehensive investment policies and procedures and taken actions to maximize investment earnings while maintaining sufficient security and liquidity.
- Examined documentation to determine whether Step Up obtained required level 2 background screenings and verified that there were no bankruptcies associated with the three Step Up owners or operators as required by Section 1002.395(6), Florida Statutes.
- Determined whether the Step Up surety bond obtained pursuant to its 2017-18 fiscal year renewal application submitted to the Florida Department of Education (FDOE) in September 2016 was still

maintained as of June 2017 and in the amount required by Section 1002.395(6)(p), Florida Statutes.

- From the population of accounts receivable totaling \$674,653 at February 28, 2017, examined documentation supporting accounts receivable totaling \$57,268 to determine whether Step Up's collection efforts complied with established policies and procedures and good business practices.
- Examined Step Up records, including scholarship applications and supporting documentation, for 60 selected recipients from the population of 172,855 FTC Program scholarship recipients during the audit period to determine whether the recipients met the eligibility requirements established by Section 1002.395(3)(b), Florida Statutes. We also determined whether the scholarship recipients were not prohibited from receiving the scholarships pursuant to Section 1002.395(4), Florida Statutes.
- From the population of FTC Program scholarship payments totaling \$508 million made during the audit period, examined Step Up documentation for scholarship payments totaling \$159,643 made on behalf of 30 students to determine whether the payments were used for students to attend eligible private schools or for transportation to a public school outside of the recipient's district or to a lab school pursuant to Section 1002.395(6)(d), Florida Statutes.
- Examined Step Up records to determine whether the FTC Program reports required to be filed on March 15, 2016, August 15, 2016, October 15, 2016, and January 15, 2017, were timely submitted to the FDOE and contained the information required by Section 1002.395(9)(m), Florida Statutes, and State Board of Education (SBE) Rule 6A-6.0960(2)(a) through (d), Florida Administrative Code (FAC).
- Examined Step Up's records for the 2015-16 fiscal year to determine whether Step Up complied with the carryforward limitations on unexpended FTC Program moneys pursuant to Section 1002.395(6)(j)2., Florida Statutes.
- Determined whether Step Up provided the FDOE, no later than 30 days after the last payment date of the school year, a summary of the FTC Program scholarship amount paid for each student and the school attended as required by SBE Rule 6A-6.0960(2)(c), FAC.
- Examined Step Up's records for the audit period to determine whether Step Up was eligible to use FTC Program and Gardiner Scholarship Program moneys for administrative expenses pursuant to Sections 1002.395(6)(j)1. and 1002.385(13)(g), Florida Statutes. Additionally, from the population of administrative expenses totaling \$13.6 million and \$1.5 million eligible to be charged to the FTC Program and Gardiner Scholarship Program, respectively, we examined Step Up records supporting 83 expenses totaling \$3.6 million to determine whether the expenses complied with the requirements of Sections 1002.395(6)(j)1. and 1002.385(13)(g), Florida Statutes.
- Determined whether Step Up charged an application fee, contrary to Sections 1002.395(6) and 1002.385(13)(g), Florida Statutes, for FTC Program and Gardiner Scholarship Program applicants, respectively.
- Examined Step Up's records to determine whether Step Up provided the majority of the FTC Program and Gardiner Scholarship Program scholarship funding to any school receiving scholarship payments exceeding \$250,000 during the 2015-16 fiscal year and, therefore, was required to ensure that the private schools contracted with an independent certified public accountant to perform agreed upon procedures pursuant to Sections 1002.395(8)(e) and 1002.385(8)(e), Florida Statutes, respectively.
- From the population of 554 eligible private schools paid a total of \$322 million from FTC Program moneys, examined documentation for 6 schools that collectively received \$2.7 million during the 2015-16 fiscal year to determine whether Step Up adequately monitored the performance of

agreed-upon procedures for applicable private schools pursuant to Section 1002.395(6)(o), Florida Statutes.

- Examined Step Up documentation to determine whether the Gardiner Scholarship Program reports required to be submitted on April 30, 2016, June 30, 2016, October 30, 2016, and January 30, 2017, were timely submitted to the FDOE and contained the information required by Section 1002.385(9)(d), Florida Statutes, and SBE Rule 6A-6.0961(6), FAC.
- Examined Step Up records supporting the population of 9,856 students who received a Gardiner Scholarship Program scholarship during the audit period, as well as documentation for 30 selected students, to verify the number of students served and to determine whether Step Up complied with applicable Program eligibility requirements established in Section 1002.385(3)(a), Florida Statutes, and SBE Rule 6A-6.0961(5)(a), FAC.
- From the population of Gardiner Scholarship Program scholarship payments totaling \$51,369,111 made during the audit period, examined documentation for 21 scholarship payments totaling \$52,042, made on behalf of 30 eligible students, to determine whether the payments were eligible Gardiner Scholarship Program disbursements and were not reduced by administrative expenses.
- Determined whether Step Up had established procedures to notify parents of Gardiner Scholarship Program scholarship awards and to provide a date for parents to confirm initial or continuing program participation pursuant to Section 1002.385(12)(b) and (c), Florida Statutes.
- Reviewed Step Up's policies and procedures for the return of unused Gardiner Scholarship Program funds to the FDOE and determined whether any amounts were required to be returned pursuant to Section 1002.385(12)(g) and (13)(c), Florida Statutes.
- From the population of 323 Gardiner Scholarship Program recipients identified by the FDOE in their October 2016 and February 2017 surveys as potentially being enrolled in a Florida public school, examined documentation for 15 selected students to determine whether Step Up timely returned program funds, if applicable, to the FDOE.
- Determined whether Step Up had established procedures to notify the parent of the availability of, and the requirements associated with requesting, an initial individual education plan (IEP) or IEP reevaluation at least every 3 years pursuant to Section 1002.385(12)(h), Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish objectives of the audit.
- Prepared and submitted for management response the finding and recommendation that is included in this report and which describe the matter requiring corrective action. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

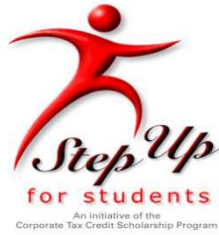
AUTHORITY

Section 11.45(2)(k), Florida Statutes, requires the Auditor General to annually conduct an operational audit of the accounts and records of eligible nonprofit scholarship-funding organizations receiving eligible contributions under Section 1002.395, Florida Statutes, including any contracts for services with related entities. Similarly, Section 1002.385(14)(a), Florida Statutes, requires the Auditor General to annually conduct an operational audit of the accounts and records of each eligible scholarship funding organization that participates in the Gardiner Scholarship Program. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



July 24, 2018

Ms. Sherrill F. Norman
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Response to Preliminary and Tentative Findings

Dear Ms. Norman,

Enclosed is our response to the preliminary and tentative audit findings and recommendations that we received on June 26, 2018.

As always, we appreciate the professionalism and collegiality of your staff. Our continual process improvement efforts are strengthened by their insightful feedback and recommendations.

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

Sincerely,

A handwritten signature in black ink that reads "Doug Tuthill".

Doug Tuthill
President
Step Up For Students

c: Board members

Step Up For Students Response To Preliminary and Tentative Findings

Step Up For Students Response to Finding 1:

Finding 1 represents several scenarios, documented below:

Step Up For Students indicates a point of clarity regarding the sample size that was used for this audit. Out of 114,500 application records in 2017-2018 school year, a random sample of 30 application records were selected, reviewed and found to have inconsistencies in the areas summarized in Finding 1. At that point, the auditor selected an additional 30 application records, a “judgmental sample,” from these targeted areas. The sampling is not statistical and does not represent projected potential error rates.

Example 1: Updates to the Federal Poverty Guidelines in the Scholarship Administration System or SAS (Step Up For Student’s internal database and processing software)

As part of our audit we evaluated whether Federal poverty level information was properly entered into the SAS and used to determine scholarship eligibility based on household income. Our comparison of IEG household size income eligibility thresholds to the corresponding SAS data fields identified certain differences. In response to our inquiries, Step Up personnel indicated that household income eligibility information programmed in the SAS was outdated, which resulted in certain inaccurate award percentage tiers and related scholarship awards. Further, according to Step Up personnel, Step Up had not established procedures to review and approve the SAS data fields to confirm that Federal poverty level information was properly updated and entered into the SAS and used for determining scholarship eligibility. Table 6 summarizes the resultant scholarships over and under awarded for the 2015-16 and 2016-17 fiscal years, as confirmed by Step Up personnel.

After reviewing this scenario with the Auditor General’s team, Step Up For Students discovered, through a root-cause analysis, a technical process within the Scholarship Administration System (SAS) was incorrectly implemented resulting in this finding. While income calculations were performed properly, the error with the update to the income cap(s) in the SAS system resulted in: 1) some over-awards, 2) some under-awards and 3) some students to no longer be eligible. For those records from the 15-16’ school year, we were unable to make adjustments. For the 16-17’ school year, we were able to recoup the over-awarded amounts via our A/R processes. In addition, we were able to make whole, the under-awarded students. These corrections were completed prior to the year being closed.

In response to table six, 280 application records, of a total of 209,500 application records, were affected by the system update error (.134% of the total). Step Up For Students has reviewed and enhanced the current process for updating the Federal Poverty Guidelines, adding additional quality controls to close existing gaps.

Example 2: Methodology for determining household income

- For 11 scholarship recipients, 3 with reported household income supported by either four weekly pay stubs or two bi-weekly pay stubs as required by Step Up’s Application Processing Manual, Step Up Application Processors did not determine the Federal poverty levels awards based on Eligibility Manual guidance for annualizing household income. When properly annualized, the 11 scholarship recipients’ household income exceeded the respective household income Federal poverty levels determined by Step Up by \$1,124 to \$5,613, and scholarship award differences ranged from \$1,260 to \$5,677 and totaled \$35,184 more than what should have been awarded.*
- The household income of 6 scholarship recipients was received from different sources and in different frequencies. Rather than calculating the poverty levels in accordance with the Eligibility Manual and annualizing each income source to determine the household income, the Step Up Application Processors totaled the pay stub amounts as a single month’s income.⁵ As a result, the annualized household income of the scholarship recipients exceeded the Federal poverty household annual income thresholds by \$505 to \$5,441 and the recipients were not eligible for the scholarships awarded ranging from \$2,839 to \$5,677 and totaling \$25,504.*

Step Up For Students' interpretation of s. 1002.395(2)(h) obligates the SFO to follow the definition of income as written in the USDA's Federal Register, not necessarily the methodology for determining eligibility based on household income. Step Up For Students followed the USDA's definition of income, as approved by the SFO's leadership, and as documented in policy and application documents, in its determination of student eligibility, and does not agree eligibility was incorrectly determined.

Step Up For Students is currently undergoing a review of these processes and will consider the Auditor General's comments regarding the methodology of determining income and is open to future changes in the current process.

Supporting documentation:

1. Florida statute 1002.395(2)(h) defines income as:

(h) "Household income" has the same meaning as the term "income" as defined in the Income Eligibility Guidelines for free and reduced price meals under the National School Lunch Program in 7 C.F.R. part 210 as published in the Federal Register by the United States Department of Agriculture.

2. Federal Register, Child Nutrition Programs: Income Eligibility Guidelines define income as:

In accordance with the Department's policy as provided in the Food and Nutrition Service publication Eligibility Manual for School Meals, "income," as the term is used in this notice, means income before any deductions such as income taxes, social Security taxes, insurance premiums, charitable contributions and bonds. It includes the following: (1) Monetary compensation for services, including wages, salary, commission or fees; (2) net income from nonfarm self-employment; (3) net income from farm self-employment; (4) Social Security, (5) dividends or interest on savings or bonds or income from estates or trusts; (6) net rental income; (7) public assistance or welfare payments; (8) unemployment compensation; (9) government civilian employee or military retirement or pensions or veterans payments; (10) private pensions or annuities; (11) alimony or child support payments; (12) regular contributions from persons not living in the household; (13) net royalties; and (14) other cash income. Other cash income would include cash amounts received or withdrawn from any source including savings, investments, trust accounts and other resources that would be available to pay the price of a child's meal.

"Income," as the term is used in this notice, does not include any income or benefits received under any federal programs that are excluded from consideration as income by any statutory prohibition.

3. SUFS utilizes this same definition of "income" as demonstrated in these examples:

- a. Eligibility policy document

- 1) Income includes but is not limited to:

- Earnings from work
- Wages, salaries, tips, commissions
- Net income from self-owned business and farms
- Strike benefits, unemployment compensation, and worker's compensation
- Welfare / child support / alimony
- Public assistance payments / welfare benefits (e.g., TANF, General Assistance, General Relief)
- Alimony or child support payments
- Retirement / disability benefits
- Pensions, retirement income, veterans' benefits
- Social security
- Supplemental security income
- Disability benefits • Any other Income

- Net rental income, annuities, net royalties
 - Interest; dividend income
 - Cash withdrawn from savings; income from estates, trusts and/or investments
 - Regular contributions from persons not living in the household
 - Any other money that may be available to pay for the child(ren)'s meals
- b. FTC Scholarship Application
- 1) See the attached screenshot from the FTC application

Example 3 - Calculation of net self-employment income

The household income of 6 scholarship recipients was based on self-employment net income (i.e., income after deducting business expenses including wages) without consideration of the household's self-employment wages. Once the respective net income and self-employment wages were combined, the household income of the 6 recipients exceeded the applicable Federal poverty household income thresholds by \$3,540 to \$4,971 and the 6 recipients were not eligible for the scholarships awarded ranging from \$4,473 to \$5,677 and totaling \$29,247.

Step Up For Students agreed the methodology for determining income for families falling into the category of self-employed was incorrect and took immediate action to correct the process.

- a. Reports were generated with all households indicating business or self-employment.
- b. A special task force of processors was created and trained with the corrected process.
- c. All households indicating business or self-employment were re-evaluated using the corrected process.
- d. Eligibility was updated based on the results using the corrected process.

Example 4 - Eligibility determination by categorical vs. calculation

Step Up For Students initially deemed 3 scholarship recipients eligible because the applicants indicated that a household member received benefits from a public assistance program. However, although Step Up personnel requested, evidence was not obtained to verify these benefits. Absent such evidence, Step Up records did not demonstrate the eligibility of the 3 recipients who received awards ranging from \$5,535 to \$5,886 and totaling \$17,098.

Step Up For Student agreed these issues were due to human error. The appropriate corrective actions were taken with the individual team members.

Definition of Income – Income sources represented on scholarship application:

Income Source	Gross Income Amount per Month
• Wages paid by check/direct deposit from an outside job (wages, salaries, tips, commissions)	\$0.00
• Wages paid in cash from an outside job (wages, salaries, tips, commissions)	\$0.00
• Strike benefits, Unemployment Compensation, and/or Workers' Compensation	\$0.00
• Child Support	\$0.00
• Alimony	\$0.00
• Adoption benefits	\$0.00
• Public assistance payments/welfare benefits (e.g., TANF, General Assistance, General Relief)	\$0.00
NOTE: Food stamps and FDIPIR benefits are NOT counted as income	
• Social Security or Disability Income (in your name)	\$0.00
• Social Security or Disability Income (for your children)	\$0.00
• Supplemental Security Income	\$0.00
• Income from a pension, retirement or VA	\$0.00
• Benefits or grants paid in cash such as housing allowances and food or clothing allowances	\$0.00
• Deployed service member's income left to household	\$0.00
• Annuities or net royalties	\$0.00
• Interest, Dividend income	\$0.00
• Cash withdrawn monthly from savings, income from estates, trusts, and/or investments	\$0.00
• Financial assistance received monthly from church, family members, or friends (total up assistance received from all)	\$0.00
"Self-employed persons may use last year's income as a basis to project their current year's net income, unless their current net income provides a more accurate measure. Net income for self-employment is determined by subtracting business expenses from gross receipts." "Eligibility Manual for School Meals, October 2011	\$0.00
• Net Income from a self-owned business or farm	
• Net Rental Income (This is the net amount you receive if you own rental property. This is NOT the amount of rent you PAY.)	\$0.00
Other Income	\$0.00
Foster Child/Out-of-Home Care Income	\$0.00

Step Up For Students Response to Finding 2:

Step Up For Students' Finance personnel regularly monitors the cash balances and cash forecasts to invest idle cash while meeting disbursement requirements. Step Up's investments decisions are made with judgement and care by persons having sufficient experience, expertise and understanding of the types of investment instruments employed and the portfolio is held by an established, reputable trustee. However, Step Up appreciates the Auditor General's recommendations to enhance our investment policies to include these and other requirements.

Regarding the investment of Gardiner funds during the audit period, at the beginning of that period, short-term interest rates were less than 30 basis points and were at their highest in that period at 52 basis points. At those rates the per-student interest earned would have been nominal at \$15 annually or less. Further, Step Up For Students did not have the systems or personnel necessary to allocate interest to the students' accounts and determined the cost of implementing that process would have been prohibitive and not a good use of the State's administrative funds.

Subsequently, short-term interest rates have risen to over 100 basis points and are now approaching 200 basis points. In August of 2016, Step Up began implementing a new accounting system that would enable the allocation of interest to students' accounts and began using that new system in January of 2018. In November of 2017, Step Up began investing the students' funds and will be allocating those funds to the students' accounts on a periodic basis.

Step Up For Students Response to Finding #3:

Step Up For Students appreciates the Auditor General's perspective on this matter, but respectfully disagrees with this finding. Step Up For Students operates with a 3% administrative fee, which is the lowest in the country. Therefore, we must be as effective and efficient as possible.

We have developed comprehensive and robust management practices to ensure that our exempt employees provide services consistent with our high expectations. All exempt employees must submit requests for paid time off (PTO) for approval by their supervisors, and are responsible, with their managers, for maintaining accurate PTO balances through this approval process in our payroll system, to ensure that the work performed is paid for appropriately.

Our exempt employees are hired to deliver results based on statutory requirements as well as organizational priorities, and they consistently go above and beyond to do so. While a timesheet for an exempt employee tracks hours claimed to be worked by the employee, it does not indicate value or standards met/exceeded for performance, which is most critical when ensuring the appropriate return on investment for dollars spent. A timesheet is a weak internal control, as it amounts to an honor system that only tracks quantity of hours and not quality. We prefer to use best practices in our management of employees.

Our remote employees, highlighted in the finding, are held to the same high standards of performance as all other employees, and stay connected to their teams through various technologies and management practices. Virtual and in-person individual and team meetings, goal-setting and review, and feedback and project updates all combine to ensure employees and teams are delivering the value expected. Modern technology gives managers the visibility to know if their employees have been off-line for an extended period without a business reason. As an example, our development team, which consists of a majority of remote employees, has had tremendous success raising funds for the tax credit scholarship program for many years through these and other management practices.

More specifically, to ensure that exempt employees' services are provided consistent with Step Up For Students' expectations, the following management practices, are available to supervisors of exempt employees, located both in the office and remotely, and help provide continuous support to their direct reports and maintain lines of communication to identify obstacles to success, performance opportunities and put plans in place to help employees achieve their goals and drive performance in ways a timesheet cannot. Examples of these are:

Regular one-on-one meetings – Many managers have regular one-on-one meetings with their direct reports, on frequencies determined necessary by the manager and employee. These meetings are an opportunity for managers to determine the employee's performance on assigned work and for employees to share concerns and obstacles to fulfilling their responsibilities.

Personal development plans – Employees and managers can create specific goals and discuss progress against those goals, offer feedback and coaching to address issues and identify successes. This also enables goals to be adjusted as organizational priorities change.

Coaching – Leadership coaching is available for all employees, to address concerns with performance and provide guidance with goal-setting, communication and to ensure new employees are set up for success with Step Up For Students. Employees can request coaching and/or a manager can request coaching to assist an employee in strengthening their performance.

New Employee Onboarding – Through individual 30- and 90-day discussions with new employees, we work with them and their managers to identify areas of concern and/or point out performance strengths to keep an employee on a successful performance path.

360 degree feedback surveys – Our employees participate in 360 degree feedback surveys, through which their peers, direct reports and supervisors provide feedback on their performance, including what they should start, stop and continue doing to be more effective and successful in their roles.

Performance Plans – If an employee is not meeting expectations, despite coaching and other practices, a performance success plan may be put in place to drive necessary improvements. If an employee is unsuccessful despite a performance plan being put in place, it may be necessary to terminate the employee. We have taken that action when necessary with exempt employees.

In summary, we have implemented the necessary management practices to ensure that our exempt employees are efficiently providing services consistent with our very high expectations. Further, our focus on continuous improvement leads us to refine these practices as needed. A timesheet for exempt employees is a weak internal control because it does nothing to ensure the value of services delivered. We disagree that the absence of a timesheet for exempt employees gives us limited assurance that work performed is paid for appropriately. As such, we disagree with this finding.