

Report No. 2018-036
November 2017

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

**AAA SCHOLARSHIP
FOUNDATION – FL, LLC**



Sherrill F. Norman, CPA
Auditor General

President and Board of Directors

During the period March 2016 through February 2017, Kim Dyson served as President and Chief Executive Officer for AAA Scholarship Foundation, Inc. and the following individuals served as Members of the Board of Directors:

Becky Burress
Toni Cardamone^a
Teri L'Homme

^a Board member elected
on March 24, 2016.

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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AAA SCHOLARSHIP FOUNDATION – FL, LLC

SUMMARY

This operational audit of AAA Scholarship Foundation – FL, LLC (AAA) focused on selected administrative activities and AAA management's performance related to the Florida Tax Credit Scholarship (FTC) and Gardiner Scholarship Programs, including AAA's compliance with applicable laws and rules. The audit also included a follow-up on the findings noted in our report No. 2017-033. Our audit disclosed the following:

Investment Policy

Finding 1: AAA needs to develop and maintain comprehensive investment policies and procedures to enhance the protection of program funds while increasing investment earnings.

RELATED INFORMATION

Section 11.45(2)(k), Florida Statutes, requires our audit to include a determination of AAA's compliance with certain FTC Program provisions. Our audit procedures and tests of selected AAA records and accounts found that AAA 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 AAA 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, AAA served 567 students and approved the payment of Gardiner Scholarship Program scholarship awards totaling \$3,551,630 for those students. In addition, our tests of AAA records found that the Gardiner Scholarship Program scholarship payments selected for audit were eligible Gardiner Scholarship Program disbursements.

BACKGROUND

AAA Scholarship Foundation, Inc. (Corporation), was incorporated in Georgia in 2010 and is registered in Florida as a foreign nonprofit corporation. AAA Scholarship Foundation – FL, LLC (AAA), a wholly owned subsidiary of the Corporation, is a Florida nonprofit scholarship funding organization (SFO) registered on December 10, 2013, as a single-member limited liability company, and operating pursuant to State law.¹ AAA's stated mission is to provide economic and other assistance to economically disadvantaged families and families of disabled students to enable them to select the best schools for their children. AAA is a State-approved nonprofit SFO that administers two scholarships for Florida schoolchildren: the Florida Tax Credit Scholarship (FTC) Program for low-income families and the Gardiner Scholarship Program for children with certain special needs. The governing body of AAA is the Corporation's Board of Directors (Board), composed of two to five members who each serve a 1-year

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

term. 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 Chief Executive Officer is responsible for day-to-day operations.

State law² 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 law³ 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.⁴ Table 1 shows the top five donor contribution amounts received by AAA during the period March 2016 through February 2017.

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

Donor	Amount	Percentage of Total Contributions
Donor 1	\$800,000	12
Donor 2	800,000	12
Donor 3	750,000	12
Donor 4	692,982	11
Donor 5	625,000	10

Source: AAA records.

State law⁵ also requires the Florida Department of Education (FDOE) to determine, and annually verify, the eligibility of each SFO, and the FDOE recognized AAA as an eligible SFO for the 2015-16 and 2016-17 fiscal years. Table 2 shows AAA's FTC Program activity during the periods March 2015 through February 2016 and March 2016 through February 2017.

² Section 1002.395(3)(a), Florida Statutes.

³ Section 1002.395(6)(d), Florida Statutes.

⁴ Pursuant to Section 1002.395(12)(a)1.b., Florida Statutes (2006), 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.

⁵ Section 1002.395(9)(b), Florida Statutes.

Table 2
FTC Program Activities

	March 2015 – February 2016 ^a	March 2016 – February 2017
Contributions collected	\$1,751,461	\$6,447,982
Total scholarships paid	\$1,664,586	\$4,283,814
Number of students awarded scholarships	470	1,168
Number of private schools paid	178	353

^a There was no FTC Program activity before March 2015.

Source: AAA records.

For AAA's fiscal years ended June 30, 2016, and 2017, eligible students received from the FTC Program maximum scholarship awards of \$5,677 and \$5,886, respectively, to attend eligible private schools. AAA did not award any FTC Program scholarships for transportation expenses for these fiscal years. Table 3 shows the top five counties by number of FTC Program students served by AAA during the period March 2016 through February 2017.

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	169
2	Duval	149
3	Orange	120
4	Hillsborough	100
5	Pinellas	96

Source: AAA records.

Additionally, State law⁶ 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 Florida Prepaid College Program.

⁶ 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.

Table 4 shows the amounts of Gardiner Scholarship Program funds received and disbursed and the number of students awarded scholarships by AAA during the periods March 2014 through February 2015, March 2015 through February 2016, and March 2016 through February 2017.

**Table 4
Gardiner Scholarship Program Activity**

	March 2014 – February 2015	March 2015 – February 2016	March 2016 – February 2017
Program Funds Received	\$571,978	\$3,175,905	\$4,811,833
Program Funds Disbursed	260,945	2,039,175	3,551,630
Number of students awarded scholarships	50	278	567

Source: AAA records.

Table 5 shows the top five counties by number of Gardiner Scholarship Program students served by AAA during the period March 2016 through February 2017.

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

	County	Students Served
1	Hillsborough	85
2	Broward	41
3	Duval	34
4	Orange	32
5	Miami-Dade	30

Source: AAA records.

As an SFO participating in the FTC Program, AAA qualified to participate in the Gardiner Scholarship Program. According to AAA accounting records for the period March 2016 through February 2017, AAA received \$4,811,833 in Gardiner Scholarship Program funds from the FDOE and \$52,696 from another SFO, transferred \$55,696 to another SFO, served 567 active students, and paid Gardiner Scholarship Program funds totaling \$3,551,630 for those students. The scholarship award amounts ranged from \$4,851 to \$21,061, depending on the student's date of application, county of residence, grade level, and disability type.

FINDING AND RECOMMENDATION

Finding 1: 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.⁷ 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. Additionally, although not specific to AAA, State law⁸ 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.

Our examination of AAA records and discussions with AAA personnel indicated that, during the period March 2016 through February 2017, AAA only received FTC Program and Gardiner Scholarship Program moneys. During that period, AAA did not make any investments but deposited the Program moneys in two interest-bearing checking accounts with the same financial institution and the moneys remained in those accounts until scholarship disbursements were made. Monthly bank statements for the period indicated a low monthly balance of \$1.7 million in June 2016, a high monthly balance of \$7.6 million in October 2016, and a combined average daily balance for both accounts of \$4.8 million. Also, during the period March 2016 through February 2017, both checking accounts paid 0.25 percent interest, resulting in combined interest earnings of \$11,876.

In response to our inquiries regarding why AAA did not invest idle funds that were held for extended periods, AAA personnel indicated each scholarship program was relatively new and uncertainty existed whether required or necessary disbursements should be made before pledged funding would be received. Notwithstanding this response, AAA did not document any consideration of whether investments should be made. AAA personnel also indicated that AAA had not established an investment policy and AAA investment decisions were to be made based on the investment policy of the Corporation, AAA's parent company. The Corporation's investment policy provides that capital preservation and liquidity are the policy objectives; investment maturities are limited to 5 years and should correspond to scholarship disbursement projections; and permissible investments include, for example, money market funds, certificates of deposit, commercial paper, master note sweep agreements, repurchase agreements, and Treasury bills. Subsequent to our audit period, AAA invested \$700,000 in Treasury bills in April 2017 in accordance with the Corporation's investment policy.

While the Corporation's investment policy contains several useful requirements for administering an investment program, as AAA is a subsidiary that is funded entirely by programs that are specific to Florida, it is important for AAA to develop and maintain comprehensive investment policies and procedures that

⁷ Source: Government Finance Officers Association Best Practices.

⁸ Section 218.415, Florida Statutes.

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 are made timely and consistent with AAA-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 AAA's investment portfolio are held in trust, and obligated to honesty and integrity in fulfilling these responsibilities.
- AAA 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 training 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 AAA's available investment portfolio to the extent practicable is useful to control the risk of loss resulting from overconcentration of investments in a specific maturity, issuer, or bank through which financial instruments are bought and sold.
- Appropriate arrangements be made for holding AAA investments. For example, as applicable:
 - Securities should be held with a third party and all securities purchased by, and all collateral obtained by, AAA should be properly designated as an asset of AAA.
 - No withdrawal of securities, in whole or in part, should be made from safekeeping, except by an authorized AAA 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.

Notwithstanding the Corporation's investment policy, the development and maintenance of comprehensive documented investment policies and procedures specific to AAA would provide additional assurance that investments will be made consistent with AAA 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.

Recommendation: To adequately protect idle funds while increasing investment earnings, we recommend that AAA develop and maintain comprehensive investment policies and procedures. Such policies and procedures should be reviewed and updated annually depending on projected cash needs and require investments be made with judgment and care, training for those responsible for investment decisions, appropriate arrangements for holding AAA investments, limitations on amounts that may be invested with any one issuer, and documented monitoring of investments.

Follow-Up to Management's Response

Management indicated in the written response that they do not concur with the finding and that they believe their existing corporate investment policy is sufficient and fully meets required State law.

Management also indicated that the references to Government Finance Officers Association (GFOA) Best Practices and Local Government Investment Policies are not appropriate for AAA, which is a small non-profit organization and differs considerably from a government agency in its nature, structure, and purpose.

Notwithstanding management's response, it is important for non-profit organizations that accumulate idle funds to develop and maintain comprehensive investment policies and procedures to address the safety of capital, liquidity of funds, and investment income, in that order. Additionally, as stated in the finding, although GFOA Best Practices and Local Government Investment Policies are not specific to AAA, they provide useful information to assist AAA in developing and maintaining investment policies and procedures. Management acknowledged that AAA's policies and procedures can be strengthened and enhanced, consequently, we continue to recommend that AAA develop and maintain adequate comprehensive investment policies and procedures.

RELATED INFORMATION

As described in the **OBJECTIVES, SCOPE, AND METHODOLOGY** section of this report, we performed procedures to determine AAA's compliance with various statutory provisions related to the Florida Tax Credit Program. Our audit procedures and tests of selected AAA records and accounts found that AAA 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 this period, 567 students received Gardiner Scholarship Program scholarships totaling \$3,551,630. Our tests of AAA records found that the Gardiner Scholarship Program scholarship payments selected for audit were eligible Gardiner Scholarship Program disbursements.

PRIOR AUDIT FOLLOW-UP

AAA management had taken corrective actions for the findings included in our report No. 2017-033.

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 law⁹ requires us to conduct annual operational audits of the accounts and records of

⁹ Sections 11.45(2)(k) and 1002.385(14)(a), Florida Statutes.

scholarship funding organizations (SFOs) participating in the Florida Tax Credit (FTC) and Gardiner Scholarship Programs.¹⁰

We conducted this operational audit from March 2016 to June 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 the AAA focused on selected administrative activities and management's performance related to the FTC and Gardiner Scholarship Programs, including AAA'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 deficiencies noted in our report No. 2017-033.

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 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

¹⁰ Sections 1002.385 and 1002.395, Florida Statutes.

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 AAA 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 AAA policies and procedures applicable to the FTC and Gardiner Scholarship Programs and interviewed AAA personnel to gain an understanding of AAA's scholarship-related operations and evaluate the adequacy of the operations.
- Obtained an understanding of AAA'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 two AAA bank accounts used for the 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 AAA personnel periodically reviewed banking agreements for sufficiency of the safeguards provided.
- Assessed the sufficiency of AAA's controls for electronic funds transfers and for transmitting funds via the Automated Clearing House to students for the Gardiner Scholarship Program.
- Examined AAA's records for the audit period to determine whether AAA had any investments and determined whether AAA 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 AAA obtained required level 2 background screenings and verified that there were no bankruptcies associated with the two AAA owners or operators as required by Section 1002.395(6), Florida Statutes.
- Determined whether the surety bond AAA 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 May 2017 and was in the amount required by Section 1002.395(6)(p), Florida Statutes.
- Examined documentation for selected accounts receivable to determine whether AAA's collection efforts complied with established policies and procedures and good business practices.
- Examined documentation for 30 students, selected from the population of 1,168 students who received FTC Program scholarship awards during the audit period, to determine whether AAA documented student program eligibility as required by Section 1002.395(6)(j)3., Florida Statutes.

- From the population of FTC Program scholarship payments totaling \$4,283,814 made during the audit period, examined AAA documentation for scholarship payments totaling \$70,417 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 AAA documentation to determine whether the FTC Program reports required to be filed on 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)(b), Florida Administrative Code (FAC).
- Examined AAA's records for the 2015-16 fiscal year to determine whether AAA complied with the carryforward limitations on unexpended FTC Program moneys pursuant to Section 1002.395(6)(j)2., Florida Statutes.
- Determined whether AAA provided the FDOE a summary of the FTC scholarship amount paid for each student and the school attended, no later than 30 days after the last payment date of the school year, as required by SBE Rule 6A-6.0960(2)(c), FAC.
- Examined AAA's records for the audit period to determine whether AAA was eligible to use FTC Program moneys for administrative expenses.
- Determined whether AAA charged an application fee for FTC Scholarship program applicants or for any applicants for the Gardiner Scholarship Program.
- Examined AAA records for the 2015-16 fiscal year to determine whether AAA provided the majority of the FTC 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 private schools contracted with an independent certified public accountant to perform agreed upon procedures for the FTC and Gardiner Scholarship Programs pursuant to Sections 1002.395(8)(e) and 1002.385(8)(e), Florida Statutes, respectively.
- Examined AAA 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 AAA records supporting the population of 567 students who received a Gardiner scholarship during the audit period, as well as documentation for 30 selected students, to verify the number of students served and to determine whether AAA 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 \$3,551,630 made during the audit period, examined documentation for 30 scholarship payments totaling approximately \$102,710 to determine whether the payments were eligible Gardiner Scholarship Program disbursements and were not reduced by administrative expenses.
- Determined whether AAA 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 AAA'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 (6)(b), Florida Statutes.
- From the population of 16 Gardiner students identified by FDOE in their October 2016 and February 2017 surveys as potentially being enrolled in a Florida public school, examined

documentation to determine whether AAA timely returned program funds, if applicable, to the FDOE.

- Determined whether AAA 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.
- Determined whether AAA was eligible pursuant to Section 1002.385(13)(g), Florida Statutes, to use Gardiner Scholarship Program moneys for administrative expenses for the 2015-16 and 2016-17 fiscal years and whether such expenses did not exceed 3 percent of the amount of each scholarship award received during the quarters ended March 2016, June 2016, September 2016, and December 2016. From the population of administrative expenses totaling \$112,920 and eligible to be charged to the Gardiner Scholarship Program during the audit period, examined AAA documentation for 30 selected expenses totaling \$37,844 to determine whether the expenses were not prohibited pursuant to Section 1002.385(13)(g), Florida Statutes, and were reasonable and necessary to operate the Gardiner Scholarship Program.
- 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



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

November 10, 2017

Dear Auditor General Norman,

Please accept the attachment as our written statement of explanation and corrective action plan concerning the October 13, 2017 preliminary and tentative audit finding related to the operational audit of AAA Scholarship Foundation – FL, LLC for the period 3/1/2016 through 2/28/2017.

We appreciate the efforts of you and your staff to protect and enhance the availability of program funds for the Florida Tax Credit Scholarship and the Gardiner Scholarship Program and for the students who rely on them.

We look forward to continuing to work together to ensure that all of Florida's children have access to the educational options that suit them best.

Sincerely,

AAA Scholarship Foundation, Inc.

A handwritten signature in black ink that reads 'Kimberly Dyson'. The signature is written in a cursive, flowing style.

Kimberly Dyson
CEO & President

Attachment

Offices: Alabama • Arizona • Florida • Georgia • Nevada • Pennsylvania
Phone and Fax: 888-707-2465 • Website: www.aaascholarships.org

AAA Response to AG 10/13/2017 Preliminary and Tentative Finding

Auditor General Finding 1: *AAA needs to develop and maintain comprehensive investment policies and procedures to enhance the protection of program funds while increasing investment earnings.*

Auditor General Recommendation: *To adequately protect idle funds while increasing investment earnings, we recommend that AAA develop and maintain comprehensive investment policies and procedures. Such policies and procedures should be reviewed and updated annually depending on projected cash needs and require investments be made with judgment and care, training for those responsible for investment decisions, appropriate arrangements for holding AAA investments, limitations on amounts that may be invested with any one issuer, and documented monitoring of investments.*

Management Response: First, we appreciate the time and effort given by the Florida Auditor General (AG) staff during this engagement; however, we feel it imperative to make the following two clarifications for the purpose of providing the reader relevant information specific to AAA:

1. AAA Scholarship Foundation – FL, LLC (AAA-FL) is a wholly-owned subsidiary of AAA Scholarship Foundation, Inc. (AAA) and therefore falls under all of AAA’s corporate policies, including its existing investment policy, and
2. AAA’s existing investment policy complies fully with state law under the provision governing the scholarship programs (ss. 1002.395 and 1002.385, F.S.). Neither the referenced Government Finance Officers Association (GFOA) Best Practices nor s. 218.415, F.S. (Local Government Investment Policies) are required under Florida’s scholarship laws.

Management does not concur with the finding. We believe that our existing corporate investment policy is sufficient and fully meets required state law under the provision of s. 1002.395(14), F.S. Additionally, while we understand why the AG has included seeking increased investment earnings in the finding, we do not believe this investment objective to be in the best interest of the scholarship programs (given the inherent market risk involved in such acts), nor is it a requirement of s. 1002.395(14), F.S.

Rather, our existing policy of investing idle program funds to earn at least the prevailing rate for United States Treasury securities with a corresponding maturity has proven to protect said funds from market risk and to provide funding for additional scholarships. As we now have a sufficient history of transactions for the Florida programs to help inform our ongoing liquidity projections, we have begun the process of investing those funds accordingly.

While we are always open to best practices, the GFOA and Local Government Investment Policies cited in the narrative of the finding are not appropriate for AAA which is a small non-profit organization and differs considerably from a government agency in its nature, structure and purpose. The referenced practices and policies are more complex, cost prohibitive and, by their very nature, would put scholarship program funds at increased risk of losing principal.

However, we do acknowledge that AAA’s policies and procedures can be strengthened and enhanced by implementing certain of the AG’s recommendations. We are currently in the process of implementing the following:

1. Stating explicitly that AAA-FL follows the AAA corporate investment policy,
2. Instituting an annual review (as opposed to the current bi-annual review) of the investment policy,
3. Enhancing the investment policy wording to indicate the expert judgement and care that has historically been implied by AAA’s history of responsible stewardship of scholarship funds, and
4. Documenting specific procedures for monitoring investment holdings relative to liquidity needs and investment policy requirements.

We believe the above provides the required explanation and corrective actions, however, please do not hesitate to contact us if you have any questions or need additional information.