

# Report No. 2019-179

## March 2019

# **AAA SCHOLARSHIP FOUNDATION – FL, LLC**



**Sherrill F. Norman, CPA**  
**Auditor General**

## **President and Board of Directors**

During the period March 2017 through February 2018, Kim Dyson served as President and Chief Executive Officer for AAA Scholarship Foundation – FL, LLC and the following individuals served as Members of the Board of Directors:

Becky Burress  
Toni Cardamone  
George Janas (elected 8/25/17)  
Teri L'Homme

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](mailto:mikegomez@aud.state.fl.us) or by telephone at (850) 412-2881.

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# **AAA SCHOLARSHIP FOUNDATION – FL, LLC**

## **SUMMARY**

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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 finding noted in our report No. 2018-036. Our audit did not disclose any reportable conditions regarding management's performance related to the FTC and Gardiner Scholarship Programs or the selected administrative activities included within the scope of our audit. Our audit also disclosed that AAA management had taken corrective action for the finding included in our report No. 2018-036.

## **RELATED INFORMATION SUMMARY**

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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 2017 through February 2018, AAA served 720 students and approved the payment of Gardiner Scholarship Program scholarship awards totaling \$4,956,880 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**

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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.<sup>1</sup> 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

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<sup>1</sup> 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 law<sup>2</sup> 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 law<sup>3</sup> 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.<sup>4</sup> Table 1 shows the top five donor contribution amounts received by AAA during the period March 2017 through February 2018.

**Table 1**  
**FTC Program**  
**Top Five Donor Contribution Amounts**  
**For the Period March 2017**  
**through February 2018**

Donor	Amount	Percentage of Total Contributions
Donor 1	\$5,400,000	38
Donor 2	1,975,000	14
Donor 3	1,500,000	11
Donor 4	1,075,000	8
Donor 5	600,000	4

Source: AAA records.

State law<sup>5</sup> 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 2016-17 and 2017-18 fiscal years. Table 2 shows AAA's FTC Program activity during the periods March 2016 through February 2017 and March 2017 through February 2018.

<sup>2</sup> Section 1002.395(3)(a), Florida Statutes.

<sup>3</sup> Section 1002.395(6)(d), Florida Statutes.

<sup>4</sup> Pursuant to Section 1002.395(11)(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.

<sup>5</sup> Section 1002.395(9)(b), Florida Statutes.

**Table 2**  
**FTC Program Activities**

	<b>March 2016 – February 2017</b>	<b>March 2017 – February 2018</b>
Contributions collected	\$6,447,982	\$14,212,000
Total scholarships paid	\$4,283,814	\$5,361,571
Number of students awarded scholarships	1,168	1,365
Number of private schools paid	353	381

Source: AAA records.

For AAA's fiscal years ended June 30, 2017, and 2018, eligible students received from the FTC Program maximum scholarship awards of \$5,886 and \$7,208, 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 2017 through February 2018.

**Table 3**  
**FTC Program**  
**Top Five Counties by Number of Students Served**

**For the Period March 2017  
through February 2018**

County		Number of Students Served
1	Duval	178
2	Miami-Dade	153
3	Orange	130
4	Hillsborough	95
5	Pinellas	94

Source: AAA records.

Additionally, State law<sup>6</sup> 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, in part, 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.
- Contracted services provided by a public school.

<sup>6</sup> Section 1002.385(1), Florida Statutes.

- 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 2015 through February 2016, March 2016 through February 2017, and March 2017 through February 2018.

**Table 4  
Gardiner Scholarship Program Activity**

	March 2015 – February 2016	March 2016 – February 2017	March 2017 – February 2018
Program Funds Received	\$3,175,905	\$4,811,833	\$6,642,321
Program Funds Disbursed	2,039,175	3,551,630	4,956,880
Number of students awarded scholarships	278	567	720

Source: AAA records.

Table 5 shows the top five counties by number of Gardiner Scholarship Program students served by AAA during the period March 2017 through February 2018.

**Table 5  
Gardiner Scholarship Program  
Top Five Counties by Number of Students Served  
For the Period March 2017 through February 2018**

	County	Students Served
1	Hillsborough	124
2	Broward	60
3	Orange	55
4	Palm Beach	53
5	Duval	52

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 2017 through February 2018, AAA received \$6,642,321 in Gardiner Scholarship Program funds from the FDOE and \$37,520 from another SFO, transferred \$47,154 to another SFO, served 720 active students, and paid Gardiner Scholarship Program funds totaling \$4,956,880 for those students. The scholarship award amounts ranged from \$9,903 to \$22,060, depending on the student's date of application, county of residence, grade level, and disability type.

## **AUDIT RESULTS**

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Our audit did not disclose any reportable conditions regarding management's performance related to the Florida Tax Credit (FTC) and Gardiner Scholarship Programs or the selected administrative activities included within the scope of our audit. Nothing came to our attention through our audit procedures to indicate that AAA controls, as designed and implemented, were not adequate to ensure that the FTC and Gardiner Scholarship Programs or the selected administrative activities were properly administered by

AAA and related laws, rules, and other guidelines were followed. As such, we are not making any recommendations.

## **RELATED INFORMATION**

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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 2017 through February 2018, and examined documentation for selected scholarship payments to determine whether the payments were eligible program disbursements. Our procedures disclosed that, during this period, 720 students received Gardiner Scholarship Program scholarships totaling \$4,956,880. 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**

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AAA management had taken corrective actions for the finding included in our report No. 2018-036.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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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 law<sup>7</sup> requires us to conduct annual operational audits of the accounts and records of scholarship funding organizations (SFOs) participating in the Florida Tax Credit (FTC) and Gardiner Scholarship Programs.<sup>8</sup>

We conducted this operational audit from March 2018 to October 2018 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:

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<sup>7</sup> Sections 11.45(2)(k) and 1002.385(14)(a), Florida Statutes.

<sup>8</sup> Sections 1002.385 and 1002.395, Florida Statutes.

- 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. 2018-036.

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 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 2017 through February 2018, 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 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 2018-19 fiscal year renewal application submitted to the Florida Department of Education (FDOE) in September 2017 was still maintained as of July 2018 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 1,365 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 \$5,361,571 made during the audit period, examined AAA documentation for scholarship payments totaling \$180,701 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 March 10, 2017, August 10, 2017, October 10, 2017, and January 10, 2018, 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 2016-17 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 15 days after the last payment date of the school year, as required by SBE Rule 6A-6.0960(2), FAC.
- 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 2016-17 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 2016-17 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, 2017, June 30, 2017, October 30, 2017, and January 30, 2018, 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(5), FAC.
- Examined AAA records supporting the population of 720 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(4)(a), FAC.
- From the population of Gardiner Scholarship Program scholarship payments totaling \$4,956,880 made during the audit period, examined documentation for 30 scholarship payments totaling approximately \$103,094 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.
- For all 8 Gardiner students identified by the FDOE in their October 2017 and February 2018 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.
- Examined AAA's records for the audit period to determine whether AAA 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 \$178,289 and \$135,965, charged to the FTC Program and Gardiner Scholarship Program, respectively, we:
  - Examined AAA records supporting 31 expenses directly charged to the FTC Program or Gardiner Scholarship Program and totaling \$108,106 to determine whether the expenses complied with the requirements of Sections 1002.395(6)(j)1. and 1002.385(13)(g), Florida Statutes.
  - Evaluated AAA's policy and procedures for allocating indirect administrative costs to the FTC Program to determine whether the allocation methodology was reasonable and examined

records supporting the \$178,289 of indirect administrative costs allocated to the FTC Program to determine whether the costs were properly allocated.

- Evaluated AAA's procedures for protecting the sensitive personal information of students and employees, including social security numbers. For the five employees who had access to sensitive personal student information through paper documentation and the scholarship processing information system during the audit period, we examined AAA's records supporting the access privileges granted to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- Obtained from the FDOE in April 2018 a listing of 32 private schools suspended from participating in the FTC and Gardiner Scholarship Programs during the 2016-17 fiscal year and determined whether AAA made any payments to those schools during their period of suspension.
- 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.
- Obtained the views of management concerning the conclusions included in this report. Management's views are summarized in this report under the heading **MANAGEMENT'S RESPONSE**.

## **AUTHORITY**

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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**

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AAA management concurred with the audit results.