

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2020-025
September 2019

**AAA SCHOLARSHIP
FOUNDATION – FL, LLC**



Sherrill F. Norman, CPA
Auditor General

President and Board of Directors

During the period March 2018 through February 2019, 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
Teri L'Homme

The team leader was Janet Case, CPA, 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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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. 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.

RELATED INFORMATION SUMMARY

Section 11.45(2)(k), Florida Statutes (2018),¹ 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 (2018).

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 2018 through February 2019, AAA served 901 students and approved the payment of Gardiner Scholarship Program scholarship awards totaling \$5,728,575 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.² 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. 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 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.

¹ Pursuant to Chapter 2019-15, Laws of Florida, Section 11.45(2)(l), Florida Statutes, effective July 1, 2019.

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

State law³ 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 2017-18 and 2018-19 fiscal years. As a State-approved nonprofit SFO, AAA 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.

State law⁴ 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. Table 1 shows the top five donor contribution amounts received by AAA during the period March 2018 through February 2019.

Table 1
FTC Program
Top Five Donor Contribution Amounts
For the Period March 2018 through February 2019

Donor	Amount	Percentage of Total Contributions
Donor 1	\$16,000,000	48
Donor 2	4,500,000	13
Donor 3	3,400,000	10
Donor 4	2,000,000	6
Donor 5	1,000,000	3

Source: AAA records.

State law⁵ 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.⁶ For AAA's fiscal years ended June 30, 2018, and 2019, eligible students received from the FTC Program maximum scholarship awards of \$7,208 and \$7,112, respectively, to attend eligible private schools. AAA did not award any FTC Program scholarships for transportation expenses for either fiscal year.

Table 2 shows AAA's FTC Program activity during the periods March 2016 through February 2017, March 2017 through February 2018, and March 2018 through February 2019.

³ Section 1002.395(9)(b), Florida Statutes.

⁴ Section 1002.395(3)(a), Florida Statutes.

⁵ Section 1002.395(6)(d), Florida Statutes.

⁶ Pursuant to Section 1002.395(11)(a)1.b., Florida Statutes (2018), 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 \$750.

**Table 2
FTC Program Activities**

	March 2016 – February 2017	March 2017 – February 2018	March 2018 – February 2019
Contributions collected	\$6,447,982	\$14,212,000	\$33,413,000
Total scholarships paid	\$4,283,814	\$5,361,571	\$15,423,766
Number of students awarded scholarships	1,168	1,365	5,405
Number of private schools paid	353	381	658

Source: AAA records.

Table 3 shows the top five counties by number of FTC Program students served by AAA during the period March 2018 through February 2019.

**Table 3
FTC Program
Top Five Counties by Number of Students Served
For the Period March 2018 through February 2019**

	County	Number of Students Served
1	Miami-Dade	1,001
2	Orange	546
3	Duval	454
4	Broward	434
5	Hillsborough	369

Source: AAA records.

While State law⁷ limits the amount of net eligible contributions after administrative expenses that SFOs may carryforward each State fiscal year, SFOs may transfer excess amounts over those limits by September 30 of each year to other SFOs. Accordingly, on July 17, 2018, and pursuant to State law, AAA transferred \$8,481,132, which was the net contribution excess amount remaining on June 30, 2018, to another SFO.

State law⁸ 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 a home education program, an eligible private school, an eligible postsecondary institute, an authorized private tutoring program, or a virtual instruction program offered by an FDOE-approved provider.

⁷ Section 1002.395(6)(j)2., Florida Statutes.

⁸ Section 1002.385, Florida Statutes.

- Examination fees for specified tests and assessments.
- Contributions to the Florida Prepaid College Program.
- 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, AAA qualified to participate in the Gardiner Scholarship Program. According to AAA accounting records for the period March 2018 through February 2019, AAA received \$8,839,327 in Gardiner Scholarship Program funds from the FDOE and \$113,757 from another SFO, transferred \$14,520 to another SFO, served 901 students, and paid Gardiner Scholarship Program funds totaling \$5,728,575 for those students. The scholarship award amounts ranged from \$3,387 to \$22,556, 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 AAA during the periods March 2016 through February 2017, March 2017 through February 2018, and March 2018 through February 2019.

**Table 4
Gardiner Scholarship Program Activity**

	March 2016 – February 2017	March 2017– February 2018	March 2018 – February 2019
Program Funds Received ^a	\$4,864,529	\$6,679,841	\$8,953,084
Program Funds Disbursed	\$3,551,630	\$4,956,880	\$5,728,575
Program Funds Transferred to Another SFO	\$ 55,696	\$ 47,154	\$ 14,520
Number of students awarded scholarships	567	720	901

^a Amounts include Program funds received from the FDOE and Program funds transferred from another SFO.

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 2018 through February 2019**

County	Number of Students Served
1 Hillsborough	110
2 Miami-Dade	85
3 Palm Beach	68
4 Orange	66
5 Broward	65

Source: AAA records.

AUDIT RESULTS

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

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 (2018).

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 2018 through February 2019, and examined documentation for selected scholarship payments to determine whether the payments were eligible program disbursements. Our procedures disclosed that, during this period, 901 students received Gardiner Scholarship Program scholarships totaling \$5,728,575. Our tests of AAA records found that the Gardiner Scholarship Program scholarship payments selected for audit were eligible Gardiner Scholarship Program disbursements.

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

We conducted this operational audit from March 2019 to July 2019 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.

⁹ Section 11.45(2)(k), Florida Statutes (2018), and Section 1002.385(14)(a), Florida Statutes.

¹⁰ Section 1002.385, Florida Statutes, and Section 1002.395, Florida Statutes (2018).

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 Section 1002.385, Florida Statutes, and Section 1002.395, Florida Statutes (2018); 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.

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 2018 through February 2019, 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.
- 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.
- Examined AAA records supporting the eligibility of 30 selected students from the 3,192 students who received FTC Program scholarship payments and were also included in the 5,405 students awarded FTC Program scholarships during the audit period to determine whether AAA documented student program eligibility as required by Section 1002.395(6)(j)3., Florida Statutes.
- Examined AAA's records for the 2017-18 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 charged an application fee for FTC Scholarship program applicants or for any applicants for the Gardiner Scholarship Program.
- Examined AAA records supporting the eligibility of 30 selected students from the 754 students who received Gardiner scholarship payments and were included in the 901 students who were awarded Gardiner scholarships during the audit period 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 State Board of Education Rule 6A-6.0961(4)(a), Florida Administrative Code.
- From the population of Gardiner Scholarship Program scholarship payments totaling \$5,728,575 made during the audit period, examined documentation for 30 scholarship payments totaling \$101,821 to determine whether the payments were eligible Gardiner Scholarship Program disbursements and were not reduced by administrative expenses.
- 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 \$710,632 and \$148,694, charged to the FTC Program and Gardiner Scholarship Program, respectively, we:
 - Examined AAA's records supporting 30 selected expenses directly charged to the FTC Program or Gardiner Scholarship Program and totaling \$262,351 to determine whether the expenses complied with the respective requirements of Sections 1002.395(6)(j)1. and 1002.385(13)(g), Florida Statutes.
 - Evaluated AAA's policies and procedures for allocating indirect administrative costs to the FTC Program to determine whether the allocation methodology was reasonable and performed analytical procedures related to the \$287,653 of indirect administrative costs allocated to the FTC Program to determine whether the costs were properly allocated.
- 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

Section 11.45(2)(k), Florida Statutes (2018), 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

AAA management concurred with the audit results.