

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2021-026
September 2020

AAA SCHOLARSHIP FOUNDATION – FL, LLC



Sherrill F. Norman, CPA
Auditor General

President and Board of Directors

During the period March 2019 through February 2020, 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:

Toni Cardamone
Teri L'Homme
Kimberly Perry from August 27, 2019
Becky Burress through July 16, 2019
George Janas through May 18, 2019

The team leader was Sarah Polo, 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), Gardiner Scholarship, and Family Empowerment Scholarship (FES)¹ Programs, including AAA's compliance with applicable laws and rules. Our audit did not disclose any findings and recommendations regarding AAA's processes and administrative activities included within the scope of our audit that must be reported in writing.

RELATED INFORMATION SUMMARY

Section 11.45(2)(l), 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 2019 through February 2020, AAA served 967 students² who received scholarship awards totaling \$7,790,158. 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.³ 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 Effective July 1, 2019, Chapter 2019-23, Laws of Florida, established the FES Program (Section 1002.394, Florida Statutes).

² The 967 students excluded eligible students who, during the period March 2019 through February 2020, were not funded or were funded but did not use the funds.

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

State law⁴ 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 2018-19 and 2019-20 fiscal years. As a State-approved nonprofit SFO, AAA administers three scholarships for Florida schoolchildren: the Florida Tax Credit Scholarship (FTC) and the Family Empowerment Scholarship (FES) for low-income families and the Gardiner Scholarship program for children with certain special needs.

State law⁵ 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 2019 through February 2020.

Table 1
FTC Program
Top Five Donor Contribution Amounts
For the Period March 2019 through February 2020

Donor	Amount	Percentage of Total Contributions
Donor 1	\$5,235,000	25
Donor 2	4,300,000	21
Donor 3	2,515,000	12
Donor 4	1,000,000	5
Donor 5	1,000,000	5

Source: AAA records.

State law⁶ 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.⁷ For AAA's fiscal years ended June 30, 2019, and 2020, eligible students received from the FTC Program maximum scholarship awards of \$7,112 and \$9,197, respectively, to attend eligible private schools. AAA did not award any FTC Program scholarships for transportation expenses for these fiscal years.

Table 2 shows AAA's FTC Program activity during the periods March 2017 through February 2018, March 2018 through February 2019, and March 2019 through February 2020.

⁴ Section 1002.395(9)(b), Florida Statutes.

⁵ Section 1002.395(3)(a), Florida Statutes.

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

⁷ Pursuant to Section 1002.395(11)(a)1.b., Florida Statutes (2019), 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 2017 – February 2018	March 2018 – February 2019	March 2019 – February 2020
Contributions collected	\$14,212,000	\$33,413,000	\$20,679,138
Total scholarships paid	\$5,361,571	\$15,423,766	\$22,680,770
Number of students awarded scholarships	1,365	5,405	5,893
Number of private schools paid	381	658	884

Source: AAA records.

Table 3 shows the top five counties by number of FTC Program students served by AAA during the period March 2019 through February 2020.

**Table 3
FTC Program
Top Five Counties by Number of Students Served
For the Period March 2019 through February 2020**

	County	Number of Students Served
1	Miami-Dade	1,056
2	Orange	585
3	Broward	543
4	Duval	481
5	Hillsborough	408

Source: AAA records.

While State law⁸ 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 June 28, 2019, and pursuant to State law, AAA transferred \$4,886,275, which was the net contribution excess amount expected to remain on June 30, 2019, to another SFO.

State law⁹ 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.

⁸ Section 1002.395(6)(j)2, Florida Statutes.

⁹ Section 1002.385(1), 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 2019 through February 2020, AAA received \$9,407,001 in Gardiner Scholarship Program funds from the FDOE and \$20,872 from another SFO, transferred \$90,385 to another SFO, served 967 students, and paid Gardiner Scholarship Program funds totaling \$7,790,158 for those students. The scholarship award amounts ranged from \$2,033 to \$22,784, 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 2017 through February 2018, March 2018 through February 2019, and March 2019 through February 2020.

Table 4
Gardiner Scholarship Program Activities

	March 2017– February 2018	March 2018 – February 2019	March 2019 – February 2020
Program Funds Received ^a	\$6,679,841	\$8,953,084	\$9,427,873
Program Funds Disbursed	\$4,956,880	\$5,728,575	\$7,790,158
Program Funds Transferred to Another SFO	\$47,154	\$14,520	\$90,385
Number of students awarded scholarships	720	901	967

^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 2019 through February 2020.

Table 5
Gardiner Scholarship Program
Top Five Counties by Number of Students Served
For the Period March 2019 through February 2020

	County	Number of Students Served
1	Hillsborough	98
2	Orange	78
3	Miami-Dade	74
4	Broward	66
5	Pinellas	65

Source: AAA records.

State law¹⁰ established the Family Empowerment Scholarship (FES) Program to provide children of families with limited financial resources with educational options to achieve success in their education. The scholarship funds must be used to pay for tuition and fees for an eligible private school.

State law¹¹ requires SFOs to verify the household income level of students and submit a list of verified students and related documentation to the FDOE. State law¹² also requires the FDOE to cross-check the list of participating scholarship students with the public school enrollment lists before each scholarship payment to avoid duplication and requires the FDOE to transfer the scholarship awards to a separate account for the FES Program for quarterly disbursement to parents of participating students. Table 6 shows FES Program eligibility determinations during the period March 2019 through February 2020.

Table 6
FES Program Eligibility Determinations

	March 2019 – February 2020
Students with Household Income Verified by AAA	104
Students Determined to be Eligible by the FDOE	80
Students Determined to be Ineligible by the FDOE	24
Scholarships Awarded by the FDOE	\$388,666

Source: AAA records.

AUDIT RESULTS

Our audit did not disclose any findings and recommendations that must be reported in writing regarding management's performance related to the Florida Tax Credit (FTC), Gardiner Scholarship, and Family Empowerment Scholarship (FES) 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, Gardiner Scholarship, and FES 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.

As 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

¹⁰ Effective July 1, 2019, Chapter 2019-23, Laws of Florida, established the FES Program (Section 1002.394, Florida Statutes).

¹¹ Section 1002.394(10)(a), Florida Statutes.

¹² Section 1002.394(7)(b), and (11)(e), Florida Statutes.

during the period March 2019 through February 2020, and examined documentation for selected scholarship payments to determine whether the payments were eligible program disbursements. Our procedures disclosed that, during this period, 967 students¹³ received Gardiner Scholarship Program scholarships totaling \$7,790,158. 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 law¹⁴ 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.¹⁵

We conducted this operational audit from March 2020 to July 2020 in accordance with 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, Gardiner Scholarship, and Florida Empowerment Scholarship (FES) Programs, including AAA's compliance with applicable laws and rules.

For those areas, our audit objectives 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; Section 1002.394, Florida Statutes; 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 internal controls.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

In planning and conducting our audit, we assessed whether internal controls were significant to our audit objectives by considering the internal control integrated framework established by the Committee of

¹³ The 967 students excluded eligible students who, during the period March 2019 through February 2020, were not funded or were funded but did not use the funds.

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

¹⁵ Sections 1002.385 and 1002.395, Florida Statutes.

Sponsoring Organizations (COSO)¹⁶ and adapted for a government environment within the *Standards for Internal Control in the Federal Government* issued by the United States Government Accountability Office. That framework is illustrated in the following table.

COSO Internal Control Integrated Framework

Internal Control Component	Description	Underlying Principles (To be Applied by the Board and Management)
Control Environment	Standards, processes, and structures that provide the basis for carrying out internal control across the organization. Represents the foundation on which an effective internal control system is built.	<ul style="list-style-type: none"> • Demonstrate commitment to integrity and ethical values. • Exercise oversight responsibility. • Establish structures and reporting lines and assign authorities and responsibilities. • Demonstrate commitment to a competent workforce. • Hold individuals accountable for their responsibilities.
Risk Assessment	Management’s process to consider the impact of possible changes in the internal and external environment and to consider actions to mitigate the impact. The basis for how risks will be managed.	<ul style="list-style-type: none"> • Establish clear objectives to define risk and risk tolerances. • Identify, analyze, and respond to risks. • Consider the potential for fraud. • Identify, analyze, and respond to significant changes that impact the internal control system.
Control Activities	Activities in the form of policies, procedures, and standards that help management mitigate risks. Control activities may be preventive in nature or detective in nature and may be performed at all levels of the organization.	<ul style="list-style-type: none"> • Design control activities to achieve objectives and respond to risks. • Design control activities over technology. • Implement control activities through policies and procedures.
Information and Communication	Information obtained or generated by management to support the internal control system. Communication is the dissemination of important information to help the organization meet requirements and expectations.	<ul style="list-style-type: none"> • Use relevant and quality information. • Communicate necessary information internally to achieve entity objectives. • Communicate necessary information externally to achieve entity objectives.
Monitoring	Periodic or ongoing evaluations to verify that the internal control system is present and functioning properly.	<ul style="list-style-type: none"> • Conduct periodic or ongoing evaluations of the internal control system. • Remediate identified internal control deficiencies on a timely basis.

We determined that the internal control components significant to our audit objectives included control activities and information and communication. The associated underlying principles significant to our objectives included:

- Management design of control activities to achieve the AAA’s objectives and respond to risks.
- Management establishment of policies and procedures to implement internal control activities.
- Management use of relevant and quality information to achieve AAA’s objectives.

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 significant to our audit objectives, instances of noncompliance with applicable governing laws, rules, or contracts, 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

¹⁶ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission was established in 1985 to develop guidance in the areas of risk and control which enable good organizational governance and reduction of fraud. Pursuant to their mission, COSO developed a framework for internal control that consists of five components and 17 underlying principles.

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; identifying and evaluating internal controls significant to our audit objectives; 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 2019 through February 2020, and selected AAA actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records 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 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, AAA policies and procedures, and other guidelines, and interviewed AAA personnel to gain an understanding of applicable processes and administrative activities.
- Obtained an understanding of AAA's internal controls and evaluated the effectiveness of key FTC, Gardiner Scholarship, and FES 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 5,893 students who received FTC Program scholarship payments or were 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 2018-19 fiscal year to determine whether AAA complied with the carryforward limitations on unexpended FTC Program moneys pursuant to Section 1002.35(6)(j)2, Florida Statutes.
- Determined whether AAA charged an application fee for FTC, Gardiner Scholarship, or FES Program applicants.
- Examined AAA records supporting the population of 928 students who were determined to be eligible for 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 State Board of Education Rule 6A-6.0961(4)(a), Florida Administrative Code.

- From the population of Gardiner Scholarship Program scholarship payments totaling \$7,790,158 made during the audit period, examined documentation for 30 scholarship payments totaling \$106,686 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 \$1,028,723 and \$206,286, charged to the FTC Program and Gardiner Scholarship Program, respectively, we:
 - Examined AAA records supporting 30 selected expenses directly charged to the FTC Program or Gardiner Scholarship Program and totaling \$319,063 to determine whether the expenses complied with the requirements of Sections 1002.395(6)(j)1 and 1002.385(13)(g), Florida Statutes.¹⁷
 - 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 \$324,634 of indirect administrative costs allocated to the FTC Program to determine whether the costs were properly allocated.
- From the population of 104 students whose household incomes were verified by AAA and provided to the FDOE for an FES Program scholarship during the audit period, examined records for 23 selected students to determine whether AAA complied with applicable Program eligibility requirements established in Section 1002.394(10)(a), 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 the objectives of the audit.
- Obtained management's views concerning the conclusions in this audit report, prepared a summary of management's comments, and provided a copy of the summary to management to verify that the comments were accurately represented. In addition, we included the summary of management's response in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45(2)(l), 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,

¹⁷ Chapter 2019-23, Laws of Florida, effective July 1, 2019, deleted Section 1002.385(13)(g), Florida Statutes, and amended Section 1002.395(6)(j)1, Florida Statutes, to provide that eligible contributions received pursuant to Sections 212.099, 212.1832, 1002.395, and 1002.40, Florida Statutes, shall be used for administrative expenses not exceeding 3 percent of the total amount of all scholarships awarded by an eligible SFO under Chapter 1002, Florida Statutes.

Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

AAA management concurred with the audit results.