

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2025-009
August 2024

AAA SCHOLARSHIP FOUNDATION – FL, LLC



Sherrill F. Norman, CPA
Auditor General

President and Board of Directors

During the period July 2023 through March 2024, 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
Teresa L'Homme
Kimberly Perry

The team leader was Janet N. Case, CPA, and the audit was supervised by Gina M. Bailey, CPA.

Please address inquiries regarding this report to Derek Noonan, CPA, Audit Manager, by e-mail at dereknolan@aud.state.fl.us or by telephone at (850) 412-2895.

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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 and Family Empowerment Scholarship 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.

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 mission² is to promote:

- Relief of the poor, the distressed or the underprivileged by providing economic and other assistance to low-income families to empower them to be able to choose the best educational setting for their children’s learning needs; and
- Advancement of education by administering legislatively authorized learning opportunities that give families the freedom to choose the educational options that best suit 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.

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 2023-24 fiscal year. As a State-approved nonprofit SFO, AAA administers two scholarship programs for Florida schoolchildren: the Florida Tax Credit Scholarship Program and the Family Empowerment Scholarship Program.

Florida Tax Credit Scholarship Program. State law⁴ established the Florida Tax Credit (FTC) Scholarship Program to expand educational opportunities for students who are Florida residents and eligible to enroll in kindergarten through grade 12 in a public school in Florida.⁵ Scholarship priority must be given in the following order:⁶

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

² Subsection I of Article VI - Purpose, *Articles of Amendment to Articles of Organization of AAA Scholarship Foundation-FL, LLC.*

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

⁴ Section 1002.395(3), Florida Statutes.

⁵ Section 1002.395(3), Florida Statutes.

⁶ Section 1002.395(3)(b)2., Florida Statutes.

- A student whose household income level does not exceed 185 percent of the Federal poverty level or who is in foster care or out-of-home care.
- A student whose household income level exceeds 185 percent of the Federal poverty level but does not exceed 400 percent of the Federal poverty level.

The FTC Scholarship 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. Contributions are used to fund eligible student scholarships and State law⁷ requires the SFOs to verify that the scholarship funds are used for specified purposes. Those purposes include, for example:

- Eligible students' private school tuition.
- Transportation to public schools outside the students' districts or to lab schools.⁸
- Instructional materials, including digital materials and Internet resources.
- Curriculum and any required supplemental materials.
- Tuition and fees associated with full-time or part-time enrollment in a home education instructional program, an eligible postsecondary educational institution or a program offered by the postsecondary educational institution, an approved preapprenticeship program, an authorized private tutoring program and certain part-time tutoring services, and certain virtual instruction programs and online courses.
- Examination fees for specified tests and assessments.

For the audit period July 2023 through March 2024, AAA received \$67.8 million in FTC Scholarship Program contributions. During that same period, the largest FTC Scholarship Program scholarship amount awarded to an eligible student by AAA was \$11,223.

State law⁹ limits the amount of net eligible contributions after administrative expenses that SFOs may carryforward each State fiscal year and requires SFOs to transfer to other SFOs the excess amount over those limits by September 30 of each year. During the 2022-23 fiscal year, AAA received FTC Scholarship Program contributions totaling \$109.5 million and, on June 30, 2023, pursuant to State law, transferred to another SFO \$96.6 million, which was the excess net contribution amount on that date.

Family Empowerment Scholarship Program. State law¹⁰ established the Family Empowerment Scholarship (FES) Program to provide children of families in Florida which have limited financial resources with educational options to achieve success in their education. State rule¹¹ defines the two FES Program scholarship options as follows:

- FES for Educational Options (FES EO)¹² is the scholarship option for students who are Florida residents and eligible to enroll in kindergarten through grade 12 in a public school in Florida.

⁷ Section 1002.395(6)(d), Florida Statutes.

⁸ Pursuant to Section 1002.395(11)(a)3., Florida Statutes (2023), 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.

⁹ Section 1002.395(6)(l)2., Florida Statutes.

¹⁰ Section 1002.394(1), Florida Statutes.

¹¹ State Board of Education Rule 6A-6.0952, Florida Administrative Code, *Family Empowerment Scholarship Program*.

¹² Section 1002.394(3)(a), Florida Statutes.

Priority must be given in the same order as with the FTC Scholarship Program. AAA did not award any FES EO scholarships during the period July 2023 through March 2024.¹³

- FES for Students with Unique Abilities (FES UA)¹⁴ is the scholarship option for students who are Florida residents with a disability described in State law,¹⁵ such as autism, cerebral palsy, or Down Syndrome. State law¹⁶ requires FES UA moneys be used for specified purposes. Those purposes include, for example:
 - Instructional materials, including digital devices and other assistive technology devices.
 - Curriculum and any required supplemental materials.
 - Specialized services by approved providers selected by the parents.
 - Tuition and fees associated with enrollment in a home education program, an eligible private school, an eligible postsecondary institution, an approved preapprenticeship program, an authorized private tutoring program and certain part-time tutoring services, certain virtual instruction programs and online courses, and Voluntary Prekindergarten Education programs.
 - Examination fees for specified tests and assessments.
 - Contributions to the Florida Prepaid College Program or Florida College Savings Program.
 - Fees for specialized summer and after-school education programs and certain music and art therapies.

For the period July 2023 through March 2024, FES UA scholarship amounts ranged from \$9,096 to \$34,311, depending on the student’s date of application, county of residence, grade level, and disability type.

Table 1 shows the number of students with FTC Scholarship and FES UA accounts during the period July 2023 through March 2024, and the amounts disbursed from those accounts during the same period.

Table 1
Number of Active Student Scholarship Accounts and Disbursements
During the Period July 1, 2023, through March 31, 2024

	FTC	FES UA
Number of Active Student Scholarship Accounts	2,795	1,659
Total Amount of Scholarships Awarded and Funded	\$21.5 million	\$17.5 million
Number of Active Student Scholarship Accounts with Disbursements	1,748	1,233
Amounts Disbursed from Student Scholarship Accounts for:		
Private School Tuition	\$8.8 million	\$5.5 million
Other Direct Payments	-	.9 million
Reimbursement Payments to Student Parents and Guardians	.4 million	1.5 million
Total Amounts Disbursed from the Student Scholarship Accounts During the Period July 1, 2023, through March 31, 2024	<u>\$9.2 million</u>	<u>\$7.9 million</u>

Source: AAA records.

¹³ Pursuant to Section 1002.395(6)(l)2., Florida Statutes (2023), an SFO must award for FTC scholarships an amount equal to or greater than 75 percent of all estimated net eligible contributions and all funds carried forward from the prior fiscal year after administrative expenses before funding any scholarships pursuant to Section 1002.394(3)(a), Florida Statutes. Because this threshold was not reached, AAA did not award any FES EO scholarships.

¹⁴ Section 1002.394(3)(b), Florida Statutes.

¹⁵ Section 1002.394(2)(e), Florida Statutes.

¹⁶ Section 1002.395(4)(b), Florida Statutes.

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 Scholarship (FTC) or Family Empowerment Scholarship (FES) or the selected AAA 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 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.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities and selected non-governmental entities specified by State law 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.

We conducted this operational audit from March 2024 through July 2024 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 conclusions based on our audit objectives.

This operational audit of the AAA Scholarship Foundation – FL, LLC (AAA) focused on selected administrative activities and management's performance related to the Florida Tax Credit Scholarship (FTC) and the Family Empowerment Scholarship (FES) Programs, including AAA's compliance with applicable laws and rules.

For those areas addressed by this audit, our 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 Sections 1002.394 and 1002.395, Florida Statutes (2023); 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, the 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.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, 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; 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 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 period July 2023 through March 2024, 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 the relevant population value or size and quantifications relative to the items selected for examination.

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 the applicable requirements and AAA scholarship-related operations and evaluate the adequacy of AAA operations.
- Obtained an understanding of AAA's internal controls and evaluated the effectiveness of key FTC Scholarship Program 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 AAA records supporting the eligibility of 30 selected students from the 2,795 students who received FTC Scholarship Program scholarships totaling \$21.5 million during the audit period to determine whether AAA documented student eligibility as required by Section 1002.395(6)(i)3., Florida Statutes. In addition, determined whether AAA personnel processed the applications for the 30 students in accordance with timelines established in AAA procedures.¹⁷
- From the \$9.2 million of FTC Scholarship Program disbursements from 1,748 student scholarship accounts during the period July 2023 through March 2024, examined documentation for 30 disbursements totaling \$108,546 to determine whether the disbursements were allowable pursuant to Section 1002.395(6), Florida Statutes.
- Examined AAA's records to determine whether AAA complied with the carryforward limitations on unexpended 2022-23 fiscal year FTC Scholarship Program moneys carried forward into the 2023-24 fiscal year pursuant to Section 1002.395(6)(l)2., Florida Statutes, by carrying forward no more than 25 percent of net eligible contributions from the 2022-23 fiscal year.
- Selected 30 direct tuition payments to private schools from the population of direct payments totaling \$8.8 million made for 1,604 active student FTC Scholarship Program accounts and

¹⁷ AAA's Web site discloses that application processing can take up to 10-12 weeks after a completed application is submitted.

compared the dates of requests for payment to the payment dates to evaluate the timeliness of the direct payments. In the absence of statutory or rules-based timelines, we considered payments made in accordance with AAA's established payment schedule to be timely.¹⁸

- Selected 30 payments totaling approximately \$.4 million to reimburse parents for out-of-pocket expenses from the population of reimbursement payments made for 144 active student FTC Scholarship Program accounts to evaluate the timeliness of the reimbursements. In the absence of statutory or rules-based timelines, we considered no later than 60 days from receipt of the required documentation to be timely.
- From the population of 1,659 students who were determined eligible for an FES Program scholarships and awarded scholarships totaling \$17.5 million during the audit period, examined documentation for 30 selected students to determine whether AAA verified that the students were eligible in accordance with requirements established in Section 1002.394(3)(b), Florida Statutes, and Florida Department of Education (FDOE) Rule 6A-6.0952(4)(a), Florida Administrative Code. In addition, we determined whether AAA personnel timely processed the applications for the 30 students in accordance with timelines established in AAA procedures.¹⁹
- From the population of FES Program disbursements totaling \$7.9 million for 1,233 students during the audit period, examined documentation for scholarship payments totaling \$117,164 made on behalf of 33 selected students to determine whether the payments were for allowable FES Program purposes in accordance with Section 1002.394(4), Florida Statutes.
- From the population of 997 active student scholarship accounts with FES direct payments to private schools and other vendors, pursuant to parental authorization, and totaling \$6.4 million during the audit period, tested 30 selected payments to determine whether AAA made the payments no later than 60 days from receipt of the required documentation in accordance with State Board of Education (SBE) Rule 6A-6.0952(6)(b)2., Florida Administrative Code.
- From the population of 236 active student scholarship accounts with FES reimbursements to parents totaling \$1.5 million during the audit period, tested 30 selected reimbursements to determine whether AAA paid the reimbursements no later than 60 days from receipt of the required documentation in accordance with SBE Rule 6A-6.0952(6)(b)2, Florida Administrative Code.
- From the population of 319 students reported to AAA by the FDOE as attending public school and awarded FES scholarships during the audit period, examined documentation for 15 selected students to determine whether AAA returned the required amount of scholarship funds to the FDOE within 30 days in accordance with SBE Rule 6A-6.0952(7)(b), Florida Administrative Code.
- For the period October 2023 through April 2024, determined whether AAA submitted to the FDOE quarterly FES reports, which included, at a minimum, the number of students participating; the demographics and disability category of the participants; the matrix level of services, if known; the program award amount per student; the total expenditures; the types of providers of services to students; and any other information deemed necessary by the FDOE, required by Section 1002.394(8)(a)11, Florida Statutes.
- Examined AAA records to determine whether AAA was eligible to use FTC Scholarship and FES Program moneys for allowable administrative expenses during the 2023-24 fiscal year, pursuant to Sections 1002.395(6)(l)1. and 1002.394(6)(a)6., Florida Statutes.
- From the population of administrative expenses totaling \$1,141,187 and \$348,358, charged to the FTC Scholarship and FES Programs, respectively, for the audit period, examined AAA records

¹⁸ During the period July 1, 2023, through March 31, 2024, AAA's direct payments schedule provided for payments to be made on September 5, 2023, October 3, 2023, and February 26, 2024.

¹⁹ AAA's Web site discloses that application processing can take up to 10-12 weeks after submission of a completed application.

supporting 30 selected expenses totaling \$561,108 to determine whether the expenses complied with the requirements of Sections 1002.395(6)(l)1. and 1002.394(6)(a)6., Florida Statutes.

- Evaluated AAA policies and procedures for allocating administrative costs for the 2022-23 fiscal year, the most recently completed fiscal year at the time of audit fieldwork, to the FTC Scholarship and FES Programs to determine whether administrative expenses paid from awarded FTC Scholarship and FES Program scholarships did not exceed 3 percent pursuant to Section 1002.395(6)(l)1., Florida Statutes. In addition, from the 3 percent, we determined whether AAA expended no more than 2.5 percent for FES administrative purposes pursuant to Section 1002.394(11)(a)4., Florida Statutes (2022), related to the administrative costs of \$417,388 and \$428,081 allocated to the FTC Scholarship and FES Programs, respectively, for the same period.
- Determined whether AAA charged an application fee for scholarship applicants, contrary to Section 1002.395(6)(l)1., 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 managements 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 under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45(2)(l), Florida Statutes, requires the Auditor General, at least once every three years, to 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. 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.