

**STATE OF FLORIDA AUDITOR GENERAL**

Operational Audit

Report No. 2016-054  
December 2015

**AAA SCHOLARSHIP  
FOUNDATION – FL, LLC**



Sherrill F. Norman, CPA  
Auditor General

## **Board of Directors and President**

During the period July 2014 through February 2015, Kim Dyson served as President and Chief Executive Officer and the following individuals served as members of the Board of Directors for AAA Scholarship Foundation – FL, LLC:

Dwight Glisson  
Teri L'Homme  
James Moran to October 2, 2014<sup>a</sup>

<sup>a</sup> Board member position remained vacant from October 3, 2014, through February 28, 2015.

The team leader was Anna A. McCormick, CPA, and the audit was supervised by Derek H. Noonan, CPA.

Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at [marilynrosetti@aud.state.fl.us](mailto:marilynrosetti@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 management’s performance related to the Florida Tax Credit Scholarship (FTC) and Florida Personal Learning Scholarship Accounts (PLSA) Programs, including AAA’s compliance with applicable laws and rules. Our audit disclosed the following:

### **Administrative Management and Board Policies**

**Finding 1:** The Board could enhance policies and procedures for the mitigation, detection, and reporting of fraud.

### **Related Information**

Section 11.45(2)(k), Florida Statutes, requires our audit to include a determination of AAA’s compliance with certain FTC Program provisions. Our audit procedures and tests of selected AAA records and accounts found that AAA generally complied with the applicable provisions of Section 1002.395, Florida Statutes.

Section 1002.385(14)(a), Florida Statutes, provides that, as part of our audit, we are to verify the total amount of students served and eligibility of reimbursements made by AAA for the PLSA Program and transmit that information to the Florida Department of Education. Our audit procedures disclosed that, during the period July 2014 through February 2015,<sup>1</sup> 50 students received PLSA Program scholarships totaling \$260,945. In addition, our tests of AAA records found that the PLSA Program scholarship payments selected for audit were eligible PLSA 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>2</sup> AAA’s 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), which is composed of two to five members, who each serve a 1-year term. New members are elected by the Board. The Board sets policy, develops and approves strategic plans and the related resource allocations, and is responsible for the performance of the organization as a whole, whereas the Chief Executive Officer (CEO) is responsible for the day-to-day operations.

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<sup>1</sup> Chapter 2014-184, Laws of Florida, created the PLSA Program effective July 1, 2014.

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

State law<sup>3</sup> established the Florida Tax Credit Scholarship (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>4</sup> requires SFOs to use the contributions received for eligible students' private school tuition, transportation to public schools outside their districts, or transportation to lab schools.

State law<sup>5</sup> requires the Florida Department of Education (FDOE) to determine, and annually verify, the eligibility of SFOs, and the FDOE recognized AAA as an eligible SFO for the 2014-15 fiscal year. Table 1 shows AAA's FTC Program activity for the 2014-15 fiscal year.

**Table 1**  
**AAA FTC Program Activities**  
**For the 2014-15 Fiscal Year**

Contributions collected	\$610,000
Total scholarships paid	\$465,943
Number of students awarded scholarships	103
Number of private schools paid	40

Source: AAA records.

For the 2014-15 fiscal year, eligible students received from the FTC Program maximum scholarship awards of \$5,272 to attend eligible private schools; however, AAA did not award any scholarships for transportation expenses.

Additionally, effective July 1, 2014, State law<sup>6</sup> established the Florida Personal Learning Scholarship Accounts (PLSA) 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 the PLSA Program moneys to be used for:

- Instructional materials including digital devices and other assistive technology devices;
- Curriculum and any required supplemental materials;
- Specialized services by approved providers selected by the parent;
- Enrollment in an eligible private school, an eligible postsecondary institute, an authorized private tutoring program, or a virtual instruction program offered by an FDOE-approved provider;
- Examination fees for specified tests and assessments;
- Contributions to the Prepaid College Program; and
- Contracted services provided by a public school.

<sup>3</sup> Chapter 2001-255, Laws of Florida, and Section 1002.395(3)(a), Florida Statutes.

<sup>4</sup> Section 1002.395(6)(d), Florida Statutes.

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

<sup>6</sup> Section Chapter 2014-184, Laws of Florida, and 1002.385(1), Florida Statutes.

As an SFO participating in the FTC Program, AAA qualified to participate in the PLSA Program. According to AAA accounting records, for the 2014-15 fiscal year, AAA paid PLSA Program scholarship awards totaling \$514,849 for the benefit of 75 eligible students. The scholarship award amounts ranged from \$9,095 to \$10,982, depending on the student's county of residence and grade level.

## ***FINDING AND RECOMMENDATION***

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### ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

#### **Finding 1: Anti-Fraud Policy**

AAA established an anti-fraud policy titled *Employee Protection (Whistleblower) Policy* that includes procedures for employee-reporting of suspected ethics and fraud violations. The policy establishes the responsibilities for investigating suspected violations, protects the reputation of persons suspected but not found guilty of fraud, identifies consequences of fraudulent behavior, and includes incident-reporting procedures that allow individuals to anonymously report suspected violations. The policy also directs employees to report suspected unethical or fraudulent activities to their supervisor or the Compliance Officer (CO) for investigation and identifies the Chief Executive Officer (CEO) as the CO.

While the policy had many positive features, it did not define fraud or identify examples of fraudulent behavior, such as theft or other misappropriation of assets or intentional misstatement of operational results. Further, given the CEO/CO's managerial responsibilities as the direct supervisor for five employees, the policy did not provide an appropriate process for communicating and reporting known or suspected fraud related to the actions of AAA management. Defining and identifying examples of fraud may help identify such violations. Also, an established process for communicating and reporting directly to the Board and AAA's legal counsel any instances of known or suspected fraud related to the actions of AAA management promotes timely and appropriate actions to investigate the reported instances.

In response to our inquiries, AAA revised the *Whistleblower Policy* on September 22, 2015, to include several specific examples of fraud.

**Recommendation: The Board should further enhance the anti-fraud policy to establish a process requiring any instances of known or suspected fraud related to the actions of AAA management be communicated and reported directly to the Board and AAA legal counsel.**

## ***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 FTC 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 PLSA Program

scholarships during the period July 2014 through February 2015,<sup>7</sup> and examined documentation for selected scholarship payments to determine whether the payments were eligible PLSA Program disbursements. Our procedures disclosed that, during the period July 2014 through February 2015, 50 students received PLSA Program scholarships totaling \$260,945. In addition, our tests of AAA records found that the PLSA Program scholarship payments selected for audit were eligible PLSA 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 law<sup>8</sup> requires us to conduct annual operational audits of the accounts and records of SFOs participating in the FTC and PLSA Programs.<sup>9</sup>

We conducted this operational audit from March 2015 to July 2015, 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.

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.

The objectives of this 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 1002.395, 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.

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

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<sup>7</sup> Chapter 2014-184, Laws of Florida, created the PLSA Program effective July 1, 2014.

<sup>8</sup> Sections 11.45(2)(k) and 1002.385(14)(a), Florida Statutes.

<sup>9</sup> Sections 1002.385 and 1002.395, Florida Statutes.

significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

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 the selection and examination of various records and transactions occurring from March 2014 through February 2015, and selected actions taken 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. Specifically, we:

- Reviewed applicable laws, rules, regulations, and AAA policies and procedures applicable to the FTC and PLSA Programs and interviewed AAA personnel to gain an understanding of AAA's scholarship-related operations.
- Obtained an understanding of AAA's internal controls and evaluated the effectiveness of key FTC and PLSA 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 three AAA bank accounts used for the FTC and PLSA Program moneys 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. Determined whether AAA periodically reviewed banking agreements for sufficiency of providing adequate safeguards. Reviewed AAA's controls for electronic transfers and transmitting funds via Automated Clearing House to students for the PLSA Program.
- Examined AAA's records during the period July 2014 through February 2015 and determined that the SFO did not have any investments.
- Examined documentation to determine whether AAA performed 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 documentation to determine whether the PLSA Program report required to be submitted on January 30, 2015, was timely submitted to the FDOE and contained the information required by Section 1002.385(9)(d), Florida Statutes, and State Board of Education Rule 6A-6.0961(6), Florida Administrative Code.
- Confirmed with the surety that the surety bond AAA obtained pursuant to its 2015-16 fiscal year renewal application submitted to the FDOE in September 2014 was still maintained as of April 2015 and was in the amount required by Section 1002.395(6)(p), Florida Statutes.
- Examined AAA records supporting the population of 50 students who received PLSA Program scholarships during the period July 2014 through February 2015, as well as documentation for

22 students to verify the number of students served and to determine whether AAA ensured compliance with applicable Program eligibility requirements established in Section 1002.385(3)(a), Florida Statutes, and State Board of Education Rule 6A-6.0961(5)(a), Florida Administrative Code..

- From the population of PLSA Program scholarship payments totaling \$260,945 made during the period July 2014 through February 2015, examined documentation for 22 scholarship payments totaling approximately \$62,000 to determine whether the payments were eligible PLSA Program disbursements.
- Examined AAA records to determine whether PLSA Program moneys were used for administrative purposes.
- Determined whether AAA had established procedures to notify parents of PLSA 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 PLSA Program funds to the FDOE and determined whether any amounts were required to be returned pursuant to Section 1002.385(12)(g) and (13)(c), 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 objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included 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 Florida Personal Learning Scholarship Accounts 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



December 6, 2015

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

Dear Ms. Norman,

Please accept this letter in response to your November 17, 2015 preliminary and tentative audit finding and recommendation.

In that document, you list the following:

**Finding 1:** The Board could enhance policies and procedures for the mitigation, detection, and reporting of fraud.


**Recommendation:** The Board should further enhance the anti-fraud policy to establish a process requiring any instances of known or suspected fraud related to the actions of AAA management be communicated and reported directly to the Board and AAA legal counsel.

In response to your Finding and Recommendation, AAA Scholarship Foundation has revised its anti-fraud policy to require any instances of known or suspected fraud related to the actions of AAA management be communicated and reported directly to its Board of Directors. A copy of the revised anti-fraud policy is enclosed for your files. It has been approved unanimously by the members of the Board of Directors.

We believe this letter and enclosed policy provide you with the requested explanations and corrective action, however, please do not hesitate to contact us if you have any questions or need additional information.

Sincerely,

AAA Scholarship Foundation, Inc.

  
Kimberly Dyson  
CEO & President

Offices: Alabama • Arizona • Florida • Georgia • Nevada • Pennsylvania  
Phone and Fax: 888-707-2465 • Website: [www.aaascholarships.org](http://www.aaascholarships.org)



## Policy on Fraud and Employee Protection (Whistleblower)

### **Article 1 - General**

AAA Scholarship Foundation, Inc. (the "Organization") requires directors, officers and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. As employees and representatives of the Organization, we must practice honesty and integrity in fulfilling our responsibilities and comply with all applicable laws and regulations.

### **Article II - Reporting Responsibility**

It is the responsibility of all directors, officers and employees to report misconduct, dishonesty and fraud or suspected violations of misconduct, dishonesty and fraud in accordance with this Policy.

### **Article III - No Retaliation**

No director, officer or employee who in good faith reports a violation or suspected violation shall suffer harassment, retaliation or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment. This Policy is intended to encourage and enable employees and others to raise serious concerns within the Organization prior to seeking resolution outside the Organization.

### **Article IV – Examples of Misconduct, Dishonesty and Fraud**

For purposes of this policy, misconduct, dishonesty and fraud include but are not limited to:

- Acts which violate the organization's Code of Conduct
- Theft or other misappropriation of assets, including assets of the Organization, our donors, constituents, suppliers or others with whom we have a business relationship
- Misstatements and other irregularities in Organization records, including the intentional misstatement of the results of operations
- Profiteering as a result of insider knowledge of Organization activities
- Disclosing confidential and proprietary information to outside parties
- Forgery or other alteration of documents
- Accepting or seeking anything of value from constituents, donors, contractors, vendors, or other persons providing services/materials to the Organization.
- Fraud and other unlawful acts
- Any similar acts or related irregularity

### **Article V - Reporting Violations**

The Organization has an open door policy and suggests that you share your questions, concerns, suggestions or complaints with someone who can address them properly. In most cases, your supervisor is in the best position to address an area of concern. However, if you are not comfortable speaking with your supervisor or you are not satisfied with your supervisor's response, you are encouraged to call our toll-free hotline at 1-877-767-7781 or email [AAAScholarships@getintouch.com](mailto:AAAScholarships@getintouch.com) with your concern.

In order to provide an appropriate process for communicating and reporting known or suspected fraud related to the actions of the Organization's management, all communications with the independent company administering the hotline will be directly reported to the Board of Directors.

### **Article VI – Responsibility for Investigating Reported Violations**

The Board of Directors is responsible for investigating and resolving all reported violations or suspected violations.

### **Article VII - Acting in Good Faith**

Anyone filing a complaint concerning a violation or suspected violation must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

**Article VIII - Confidentiality**

Violations or suspected violations may be submitted on a confidential and anonymous basis. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

**Article IX - Handling of Reported Violations**

All reports will be promptly investigated and appropriate corrective action will be taken if warranted by the investigation. You may call back the toll-free hotline at 1-877-767-7781 within three to four days after leaving your message or sending your email to hear a message from the Organization regarding the status of your case. You will be asked to enter the five-digit case number that was provided at the time of the report.

**ACKNOWLEDGEMENT OF RECEIPT AND UNDERSTANDING OF POLICY ON FRAUD AND  
EMPLOYEE PROTECTION (WHISTLEBLOWER)**

My signature below indicates my receipt and understanding of this policy. It also verifies that I have been provided with an opportunity to ask questions about the policy.

\_\_\_\_\_  
Employee Signature

\_\_\_\_\_  
Date Signed

\_\_\_\_\_  
Employee Name