Special Examination • Report No. 20-12 January 2021

Georgia Department of Audits and Accounts
Performance Audit Division

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Why we did this review

The House Appropriations Committee requested this special examination of the Student Scholarship Program (SSP). Based on the request, we reviewed: (1) how qualified education expense tax credits are disbursed; (2) whether student scholarship organizations retain a reasonable administrative fee; (3) whether student scholarship organizations direct contributions according to the intent of the law; and (4) whether any measures can be taken to improve transparency and accountability to improve the integrity of future donations.

About the Student Scholarship Program

The Qualified Education Expense Tax Credit (QEEC) and Student Scholarship Organizations (SSOs) were established in 2008 (O.C.G.A. § 48-7-29.16 and Chapter 20-2A). SSOs are nonprofit organizations that collect donations from individuals and corporations and work with private schools to distribute scholarships to eligible (pre-k through grade 12) students. The Department of Revenue (DOR) manages aspects of the tax credit program (e.g., donor preapproval, taxpayer eligibility, aggregate tax credit limits, and compliance reporting). The Georgia Department of Education (GaDOE) establishes the annual scholarship maximum and keeps a record of active SSOs.

Qualified Education Expense Credit and Student Scholarship Program

Additional measures needed to improve transparency and accountability

What we found

Statutory requirements provide a degree of transparency and accountability for the student scholarship program. Student Scholarship Organizations (SSOs) must comply with various requirements, and their maximum administrative fee percentages are based on donations received. Taxpayers donating to SSOs qualify for tax credits that are limited according to their filing status (or in some cases tax liability), and the annual tax credit cap (raised to $100 million in 2019). However, we identified additional actions the General Assembly and state agencies should take to increase and improve information available to decision makers and ensure taxpayers have earned the credits claimed.

Additional steps are needed to improve transparency and accountability of the student scholarship program.

Our review found that SSOs generally submit required reports and data. However, we found inconsistencies in what requirements were included in SSO reports. Additionally, based on a review of four states identified as having robust accountability and transparency measures, there are additional requirements the General Assembly should consider.

- Increased legislative oversight and additional legal measures are needed to fully assess SSOs' compliance with state law. SSOs must submit compliance audits to DOR. However, state law does not require audits to verify and report compliance with all relevant legal requirements, such as ensuring student eligibility. Additionally, requiring SSOs to submit supporting documentation would allow the state to verify the accuracy of summary reports.

SSOs cannot be compelled to provide information beyond what is statutorily required. As a result, responses to requests for additional information are voluntary.

- Alabama, Florida, Indiana, and Louisiana have adopted measures that enhance reporting and expand transparency into their scholarship programs. Examples include explicitly requiring a financial audit, requiring public disclosure of financial reporting, and requiring detailed reporting on scholarship awards. States have statutes that specify how interest income can be used and when donations must be expended. Finally, some require SSOs to disclose scholarship award methods.
- Georgia's administrative fee percentages generally align with those in other states. However, it is not possible to calculate operating ratios to assess the reasonableness of the administrative fees individual SSOs retain. Effective in 2019, SSOs must report "fees or assessments retained;" however, this revenue data is self-reported and there is no requirement to report administrative expenses. Defining which items are administrative expenses and administrative revenues and requiring SSOs to report verified data in the compliance audit would allow for this type of analysis.

  Additionally, reports submitted by the SSOs are by law "confidential taxpayer information" and restricted from publication. Unless this is changed, no detailed analysis of this data can be published.

DOR and GaDOE should take steps to improve oversight and ensure compliance.

DOR is responsible for overseeing the tax credit as well as receiving and reviewing information the SSOs submit. Our review found that DOR could take additional steps to ensure certain taxpayers have the necessary tax liability to support the tax credit approved. Also, DOR and GaDOE could take additional steps to improve how they monitor the SSOs and manage noncompliance.

- State law limits the credit amount for corporations and individuals receiving income through pass-through organizations based on their Georgia tax liability; it also prohibits carrying forward any credit amount earned in excess of these limits. However, DOR does not currently have controls in place to prevent this from occurring.
- While DOR generally identified and responded when SSOs failed to submit required reports, it did not always notify noncompliant SSOs in a timely manner. We also found that DOR did not ensure that compliance audits verified and reported on all relevant requirements. Finally, noncompliant SSOs were not always removed from GaDOE's list of active participants in a timely manner.

What we recommend

We recommend the General Assembly consider updating the O.C.G.A. Chapter 20-2A to clarify reporting and verification requirements, define administrative revenues and expenses, and include accountability measures identified in other states.

We recommend DOR develop processes to ensure claimed credits do not exceed the tax liability of corporations and individuals obtaining income from pass-through entities. DOR should also improve its review of SSO compliance audits to ensure they contain all required verified information and send timely notifications to noncompliant SSOs. Finally, we recommend DOR and GaDOE work together to ensure the active provider list includes only SSOs that are legally authorized to operate in Georgia.

See Appendix A for a detailed listing of recommendations.

DOR Response: *DOR provided technical corrections to the report that were addressed and indicated it had no comment on the findings.*

GaDOE Response: *GaDOE provided specific responses to individual recommendations, which are included at the end of the appropriate finding.*

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Purpose of the Special Examination

This review of the Student Scholarship Program was conducted at the request of the House Appropriations Committee. Our review focuses on the following questions:

1. How are credits under the qualified education expense tax credits disbursed?
2. Do student scholarship organizations retain a reasonable administrative fee?
3. Do student scholarship organizations direct contributions according to the intent of the law?
4. Can measures be taken to improve transparency and accountability to improve the integrity of future donations?

A description of the objectives, scope, and methodology used in this review is included in Appendix B. A draft of the report was provided to the Georgia Department of Education (GaDOE) and the Georgia Department of Revenue (DOR) for their review, and pertinent responses were incorporated into the report.

Background

Georgia's Student Scholarship Program

In 2008, HB 1133 created the Qualified Education Expense Credit (QEEC), which allows Georgia's corporate and individual taxpayers to earn a tax credit when they donate funds to organizations that award scholarships to students attending private schools. Throughout this report, the tax credit and participating scholarship organizations are collectively referred to as Georgia's Student Scholarship Program (SSP). The responsibilities and processes associated with the various components and entities are discussed in the following sections.

The Qualified Education Expense Tax Credit

The QEEC is a full tax credit where contributors receive a dollar-for-dollar credit against their state income taxes. O.C.G.A. § 48-7-29.16 and Chapter 20-2A outline the donation and claims processes, including individual and aggregate limits on donations as well as the eligibility criteria for prospective students and schools. Additionally, it created Student Scholarship Organizations (SSOs) to manage donations and award scholarships to eligible students; taxpayers are required to donate through an SSO. Finally, statute established oversight responsibilities for the Georgia Department of Revenue (DOR) and the Georgia Department of Education (GaDOE).

Credit Limits

Between 2008 and 2012, the annual aggregate cap on annual tax credits was $50 million before increasing to $58 million between 2013 and 2018. Since 2019, the aggregate cap has been $100 million. The tax credit is equal to 100% of the contribution taxpayers make to an SSO subject to certain caps.

C-Corporations are legal business entities taxed as corporations; S-Corporations are pass-through tax structures.

Individual and fiduciary limits have not changed since the credit was introduced. As shown in **Exhibit 1**, the maximum annual credit is $1,000 for individuals and $2,500 for married couples filing jointly. For C-Corporations, the maximum credit is equal to the actual contribution amount or 75% of the corporation's state income tax liability, whichever is less. For those with an ownership interest in S-Corporations and other pass-through entities, the maximum credit is equal to the actual amount expended or $10,000, whichever is less.[1] Taxpayers have up to five tax years after the contribution year to claim the tax credit against a year's state income tax liability.

Exhibit 1
While the Aggregate Limit on Donations Increased in 2019, Taxpayer Credit Limits Remain the Same

Aggregate Limit	2013 to 2018	2019 to Present
Aggregate (All Taxpayers)	$58 Million	$100 Million
Taxpayer Credit Limits	**2013 to Present**	
Individual	100% of amount expended but limited to $1,000 for Individuals $1,250 Married couples filing separately $2,500 Married couples filing jointly	
Corporations and Other Entities	100% of amount expended or 75% of the corporation's tax liability, whichever is less	
Individuals Claiming Income from Pass-Through Entities	Amount expended but limited to 100% of the portion of income on which such tax was actually paid by S-Corporation member, up to a maximum of $10,000[1]	

[1]Presuming a tax liability of at least the amount claimed
Source: O.C.G.A. and legislative changes

Student Scholarship Organizations (SSOs)

With the creation of the QEEC, SSOs were established as charitable 501(c)(3) organizations authorized to collect and manage taxpayer donations that award scholarships to eligible students who attend private schools.[2] As of October 2020, GaDOE listed 27 active SSOs. See Appendix C for a list of SSOs.

As shown in **Exhibit 2**, state law outlines operational requirements, prohibitions, and reporting requirements for the SSOs. For example, SSOs must consider a student's financial need when awarding scholarships and cannot base their award decisions on a donor's request. Additionally, SSOs must have an annual audit of their accounts verifying statutory compliance and report the results to DOR.[3] SSOs must also report

[1] Individuals have been allowed to claim the higher credit limit through income from ownership interests in pass-through entities since January 2013.
[2] State law prohibits SSOs from limiting scholarships to students from one school.
[3] O.C.G.A. § 20-2A-2 states that each SSO "[m]ust conduct an audit of its accounts by an independent certified public accountant within 120 days after the completion of the [SSO's] fiscal year verifying that it has complied with all requirements of this Code section, including, but not limited to, financial requirements." For the purposes of this report, we refer to these statutorily-required reports as compliance audits.

summary information such as the total number of contributions and scholarship recipients, which DOR publishes.

Exhibit 2
SSOs Must Comply with Statutory Requirements and Prohibitions

SSOs Must:

- Submit annual notice of intent to continue operating to GaDOE
- Have independent board of directors with at least three members
- Maintain separate accounts for scholarship funds and operating funds
- Designate specific student recipients on or before the end of the calendar year following the calendar year in which it receives donations & obligates them for scholarship awards
- Hold obligated revenues in a bank or investment account owned by the SSO until revenues are designated for specific student recipients
- Consider financial need of eligible students in awarding scholarships
- Have audit of accounts conducted by an independent CPA within 120 days of the close of the its fiscal year
- Submit the compliance audit and a summary report of activities annually to DOR

SSOs May Not:

- Be an entity which operates, owns, is affiliated with, or is a subsidiary of an association, organization, or other entity that provides accreditation of elementary or secondary schools.
- Distribute any scholarship that exceeds the average state and local expenditures per student in fall enrollment in Georgia public elementary and secondary education
- Indicate to a donating taxpayer that they shall receive a scholarship for the direct benefit of any particular individual (whether a dependent of the taxpayer or not)
- Award, or restrict award, of a scholarship to a specific eligible student at the request of a donor
- Encourage or facilitate taxpayers to engage in actions that are prohibited by law

DOR Must Publish:

- Total number & dollar value of contributions and tax credits approved (by individual and corporation)
- Total number & dollar value of scholarships awarded to eligible students
- Total number of scholarship recipients by family Adjusted Gross Income & Federal Poverty Level
- Average scholarship dollar amount by Adjusted Gross Income category of Federal Poverty Level

Source: O.C.G.A. §§ 20-2A-2 and 48-7-29.16, 20-2A-3

State law also establishes a set of minimum percentages SSOs must obligate toward scholarships based on the annual revenue[4] they receive from donations. As shown in **Exhibit 3**, percentages vary based on the total amount of annual donations an individual SSO receives and marginally decrease as they collect more in donations. As a result, SSOs must obligate a larger percentage of donations to scholarships as total donations increase.

Since 2019, SSOs have been statutorily required to disclose to DOR the amount of administrative fees or assessments they collected on annual donations. However, state law does not permit DOR to publish SSO fee amounts publicly.

Exhibit 3
SSOs Must Obligate between 92% and 96% of Donation Revenue for Scholarships

Annual Donations Collected	Minimum % to Obligate for Scholarships	Corresponding Maximum Allowable Administrative Fee %
Up to $1.5 Million	92%	8%
Between $1.5 Million and $10 Million	94%	6%
Between $10 Million and $20 Million	95%	5%
Above $20 Million	96%	4%

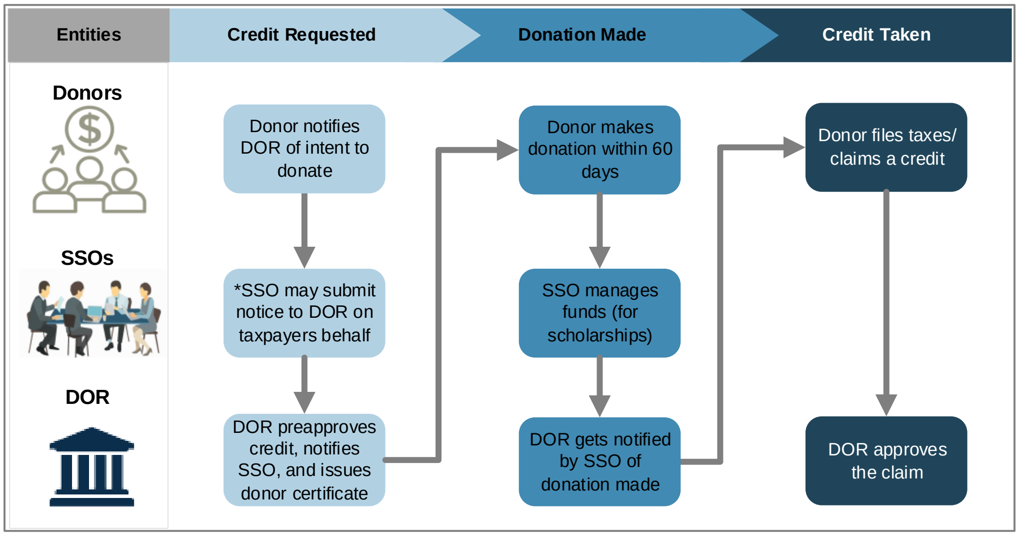
Source: O.C.G.A.§ 20-2A-2

Donation and Claims Process

O.C.G.A. § 48-7-29.16 outlines the process for taxpayers to donate to SSOs. As shown in **Exhibit 4**, the process starts when a taxpayer notifies DOR of their intent to donate to the tax credit through DOR's Georgia Tax Center. An SSO may request preapproval on behalf of the taxpayer. After verifying the contribution amount is eligible, DOR sends taxpayers a notice of preapproval, and taxpayers then have 60 days to make their preapproved contribution to their SSO. Taxpayers have up to five years after the donation year to claim their donated amount against their state income tax liability.

[4] It is not clear whether interest gains are subject to this percentage or just donations. O.C.G.A. § 20-2A-2 indicates that administrative fee percentages pertain to "its annual revenue received from donations for scholarships or tuition grants."

Exhibit 4
Taxpayers, SSOs, and DOR Are All Involved in the Donation Process



Source: State law and DOR Records

Taxpayers are preapproved for a tax credit on a first-come, first-served basis, and their requested preapproved amounts are prorated if the aggregate cap is met on the first day preapproval applications are accepted. As shown in **Exhibit 5**, the cap was met on the first day preapproval applications were accepted between 2015 and 2018. As a result, DOR prorated the preapprovals. In 2018, the proration was 55%.

Exhibit 5
Between 2015 and 2018, the Tax Credit Cap Was Met on the First Day the Applications were Accepted

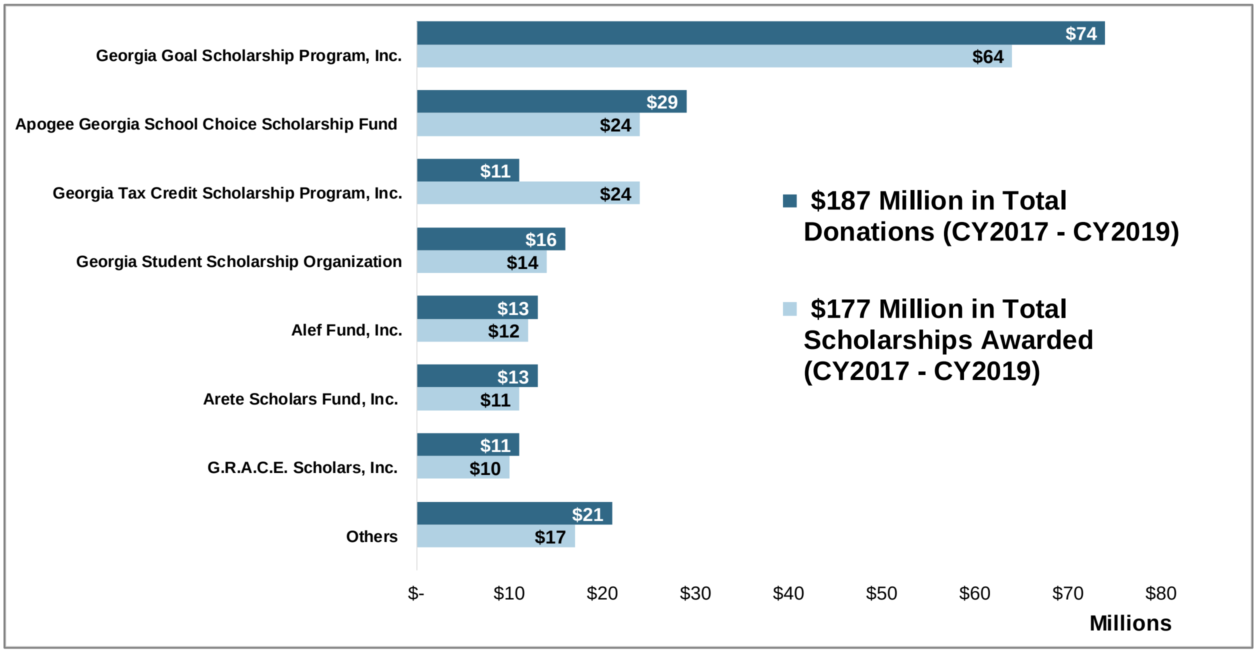
Year	Tax Credit Cap (in Millions)	Date Cap Met
2020	$100	In process[1]
2019	$100	December 4
2018	$58	January 2
2017	$58	January 3
2016	$58	January 4
2015	$58	January 1
2014	$58	January 22
2013	$58	May 9

[1]As of November 2020, $93.3 million in donations have been preapproved for the 2020 tax year.

Source: DOR QEEC Monthly Progress Reports

While 27 active SSOs are registered with GaDOE as of October 2020, seven SSOs collected and awarded almost all total donations and scholarships. As shown in **Exhibit 6**, seven SSOs collected 89% ($166 million of $187 million) of total taxpayer contributions and awarded 90% ($160 million of $177 million) in scholarships between 2017 and 2019. The remaining 20 collected 11% ($21 million) of total contributions and awarded 10% ($17 million) in scholarships. One SSO collected more than 30% of total donations in each of the last three years, averaging nearly 40% during the period.

Exhibit 6
Seven SSOs Collected 89% of Total Contributions and Awarded 90% of Scholarships, CY 2017 to CY 2019



Source: Student Scholarship Organization Reports

State law requires SSOs to award at least 92% of taxpayer contributions as scholarships; however, it does not specify the time frame within which the distribution or transfer must occur.

Scholarships

SSOs partner with eligible schools that enroll students who receive the scholarships. Students and schools must meet statutory criteria to participate, as described below.

- **Schools** – Qualified schools or programs include most Georgia nonpublic pre-kindergarten programs, primary schools, or secondary schools. According to statute, qualifying schools must be located in Georgia and meet the requirements prescribed by law for private schools; adhere to the provisions of the Civil Rights Act of 1964; and be accredited or in the process of becoming accredited by one of the entities specified.

  The SSOs are not required to publish a list of schools they have partnered with, though some publish this information on their websites.[5]

[5] The seven largest SSOs identified more than 500 schools they have partnered with in the past on their websites. We do not know what percentage of private schools in the state this represents, however, because GaDOE does not maintain an accurate and complete list of all private schools operating in the state.

- **Students** – In 2019, approximately 16,400 students received a scholarship through the program. Statute requires students to meet one of the following criteria to be eligible for the scholarship. Students must be:
  - Homeschooled;
  - Entering grade pre-k, kindergarten, or 1st grade;
  - Attending grades 2 through 12 in a public school for at least six weeks prior to transferring to a private school;
  - Attending (or slated to attend) a "low-performing public school" as defined by the Governor's Office of Student Achievement; or
  - A victim of (officially documented) bullying or abuse in a public school.

  Once eligible, students maintain year-over-year eligibility, meaning they can retain the scholarship. State law does not prohibit additional eligibility criteria individual SSOs may apply for prospective scholarship applicants; however, it does require SSOs consider financial need of applicants in awarding scholarships. Some SSOs report use of a third-party service to assess financial needs as part of the application process. In addition, state law prohibits donations from being designated for a specific student.

The processes for distributing scholarships vary among SSOs, and state law does not dictate how scholarships are distributed. Parents may apply for scholarships either directly with an SSO or through a private school that then forwards the scholarship recommendations to its partner SSO. Once requirements are met and a scholarship is awarded, the procedure for maintaining eligibility and fund retention from year to year varies by SSO. While the state outlines scholarship parameters (e.g., student eligibility criteria, maximum scholarship amounts), SSOs may impose more stringent policies regarding scholarship handling.

Required Reporting

SSOs must annually submit to DOR a list of all taxpayers who donated to them over the prior calendar year. While retained by DOR, this list is not permitted by law to be published. The SSOs must also annually submit to DOR two additional reports by January 12 to meet statutory requirements: a copy of the most recent compliance audit and a summary report of activities (see **Exhibit 7**). See Appendix D for a breakdown of SSO donations by individuals and corporations.

Exhibit 7
Each SSO Must Send Documents to DOR Annually

Report Name	Report Contents
Compliance Audit	Audit of accounts conducted by a CPA[1]
Summary Activity Records	DOR form containing summary-level information on contributions and scholarships such as total donations collected and scholarships awarded during the calendar year[2]
Donor List	List of all donors who contributed in the calendar year and the amount of each donation

[1] O.C.G.A. § 20-2A-2 requires SSOs to have an independent certified public accountant verify that it complied "with all requirements . . . including, but not limited to, financial requirements."
[2] Starting in 2019, SSOs must disclose the amount of fees or assessments charged on all contributions.
Source: O.C.G.A. §§ 20-2A-2, 20-2A-3, and 48-7-29.16 and DOR Rule 560-7-8-.47

SSOs are also required to report the average scholarship amount awarded to each recipient family's Federal Poverty Level (FPL) category, as well as the number of awards in each category. Prior to 2019, SSOs were required to report the total number of scholarship recipients who fell within each quartile of Georgia adjusted gross income. See Appendix E and Appendix F for a breakdown of these figures by year and SSO.

State Agency Oversight

Per statute, DOR and GaDOE oversee parts of the tax credit and scholarship processes, as well as reporting requirements for SSOs.

- GaDOE must maintain a list of all active, participating SSOs. The agency must also enforce the requirement that SSOs submit a notice of intent to accept donations and award scholarships. In addition, GaDOE must establish the maximum annual scholarship amount an SSO can award, as derived from the average state and local expenditures per student in fall enrollment in public elementary and secondary education.
- DOR facilitates processes related to obtaining preapproval and claiming the credit. DOR must also enforce annual aggregate and individual taxpayer credit limits.

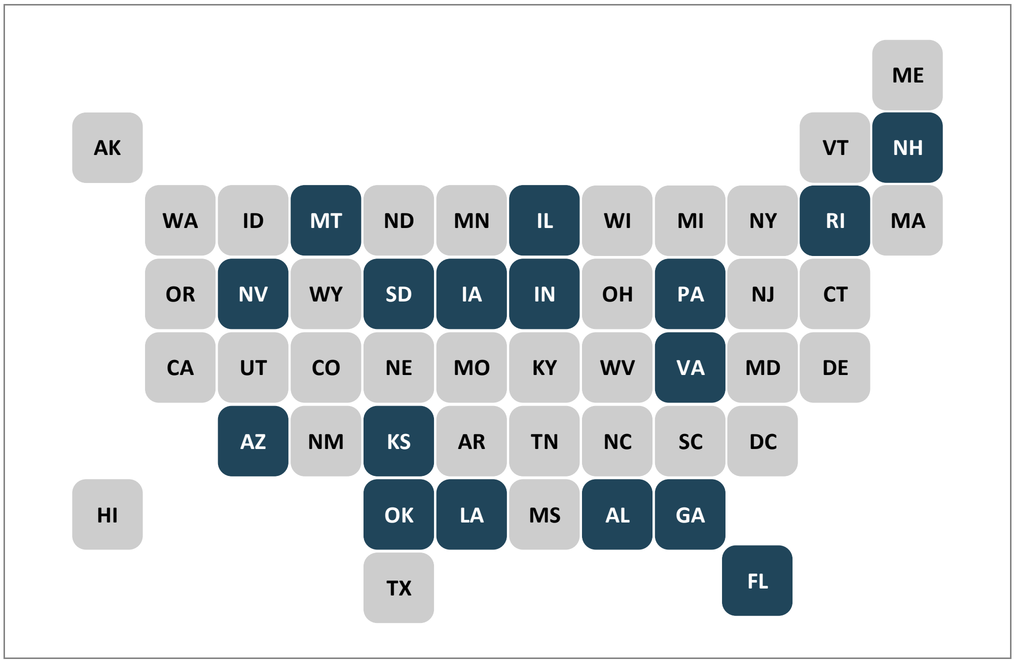
Both agencies also have responsibilities if an SSO fails to comply with statutory requirements. First, DOR issues written notice in the form of a letter. If the non-compliant SSO does not correct identified deficiencies within 90 days of receipt, DOR sends a letter notifying the SSO that it will be immediately removed from the list of eligible SSOs. DOR also notifies GaDOE of the SSO's failure to comply, and GaDOE removes the SSO from its list of eligible SSOs. The noncompliant SSO must cease all operations as an SSO and transfer all scholarship account funds to a compliant SSO within 30 days of receiving DOR's notice of removal. Since 2016, nine SSOs have been removed because of noncompliance.

Scholarship Programs in Other States

As shown in **Exhibit 8**, 16 other states have tax credit scholarship programs similar to Georgia's program.[6] Arizona was first to launch a tax credit scholarship program in 1997, and 16 other states (including Georgia) have passed similar programs. While states' legal requirements and processes differ, all share the same basic structure of Georgia's program, where nonprofit, third-party organizations receive taxpayer donations and distribute the funds as scholarships for students wishing to enroll in private schools.

[6] We did not include Utah or South Carolina, which only offer scholarships to students with special needs.

Exhibit 8
16 Other States have Similar Student Scholarship Programs



Source: Other States' Laws

Requested Information

Finding 1: During the last three years, donors have earned $187 million in tax credits, with individuals making up approximately 99% of all donors and approximately 76% of all donations.

Taxpayers must be preapproved prior to making a donation.

After preapproval, an individual taxpayer earns a one-to-one tax credit by donating funds to SSOs for private school scholarships.

For its donation, a corporation earns a tax credit based on its tax liability.

From 2017-2019, individual and corporate donors were preapproved to contribute $216 million to the scholarship program, making them eligible to earn a tax credit upon donation. Of the total preapproved, $187 million (87%) in donations were made to earn the tax credit. As of July 2020, $95 million of $187 million (51%) in tax credits had been claimed.

In 2017 and 2018, preapproval requests were $117 million and $105 million, respectively—almost double the amount allowed under the statutory cap of $58 million. As a result, DOR prorated the requests for tax credits; in 2017 taxpayers were approved at 49% of the requested amount, and in 2018 they were approved at 55%. Effective 2019, the General Assembly increased the annual cap to $100 million; taxpayers qualified for the entire requested amount instead of having the request prorated significantly.

As described on page 4, the amount of tax credits disbursed is based on the donation amount rather than the preapproval amount. Taxpayers have up to five years after the donation year to claim the credit. A more detailed presentation of donations and claims is discussed in the following sections and included in Appendix G.

- **Donations Made (Credits Earned)** – Donations were below preapprovals by between 9% and 17% each year. In 2017 and 2018, taxpayers donated $53 million and $51 million to earn tax credits (approximately 90% of the $58 million preapproved). In 2019, after the cap increase, donations equaled $82.7 million—83% of the $100 million preapproved.[7]

  As shown in **Exhibit 9**, during the period reviewed, more than 68,000 individuals donated approximately 76% of total funds. The average individual donation increased from $1,742 in 2018 to $2,936 in 2019 (when the cap changed). Corporations represented the largest average donation amount ($80,151 during 2017-2019).

Exhibit 9
Nearly All Donors were Individuals in Tax Years 2017-2019

	Individuals[1]	Corporations	Total
# of Donors[2]	68,383	561	68,944
Total Donations (Millions)	$142	$45	$187
Average Donation	$2,076	$80,151	$2,712
% of Preapproved Amount Donated	86%	90%	87%
% of Donations	76%	24%	100%

[1] Includes individuals who received income from a pass-through entity
[2] This is the sum of donors each year and may include duplicates if they contributed in more than one year.

Source: Department of Revenue records

[7] Effective August 2018, federal tax law changed to prevent taxpayers from claiming both a 100% state tax credit and a federal charitable deduction on the same contribution. Prior to this, taxpayers could recoup more than 100% of their donation. The effect of this change on donations is unknown at this time.

Statutory caps based on individual's filing status

Individuals filing single: $1,000

Married individuals filing separately: $1,250

Married individuals filing jointly: $2,500

Individual owners or investors of pass-through entities: up to $10,000

The credit amount an individual can earn through a donation is based on their filing status. As a result, within the category of individual filers, the average donated amount varies, with the largest variation being between those with and without pass-through income ($5,908 and $1,369, respectively). In 2019, individuals with pass-through income represented 14% of all individual donors. The 2018 median Georgia adjusted gross income (AGI) for these individuals was $479,107, compared to a median AGI of $183,638 for individuals without pass-through income. The breakdown of donors by Federal Poverty Level brackets—similar to those reported for scholarship recipients—can be found in Appendix H.

During the period reviewed, 27 different SSOs received donations from taxpayers and managed funds for scholarships (see page 5). Seven SSOs received $165.8 million in donations, or 89% of donations.

- **Credits Claimed** – For tax years 2017 and 2018, taxpayers who filed as individuals claimed $54.1 million of $73.2 million in earned tax credits (74%). Taxpayers who filed as business entities claimed $12.8 million of $31.0 million in earned tax credits (41%).

The COVID-19 pandemic in 2020 resulted in tax filing deadline extensions for tax year 2019. As of July 31, 2020, taxpayers had claimed approximately $28.3 million; however, this does not represent a full and accurate record of total claims that will likely be taken for credits earned in 2019. Therefore, we cannot accurately report on the percentage of earned credits claimed.

Finding 2: DOR does not have adequate controls to ensure that taxpayers' tax liability is sufficient for the credit amount earned, claimed, and carried forward.

DOR does not have a process to ensure that corporations and individuals receiving income from pass-through organizations have the necessary tax liability to qualify for the amount of the credit earned, claimed, and carried forward. As a result, these taxpayers may receive higher credits than they qualify for based on their tax liability.

State law (O.C.G.A. § 48-7-29.16) limits the credit amount for corporations and for individuals with ownership interests in pass-through entities based on their Georgia tax liability. In addition, DOR Rule 560-7-8-.47 prohibits these taxpayers from claiming or carrying forward any credit amount earned in excess of these limits. However, as described below, controls are not present to prevent this from occurring.

Corporations

For corporate taxpayers, the credit amount is limited to the lesser of the donation or 75% of the corporation's Georgia tax liability. DOR rules prohibit corporations from claiming or carrying forward any credit amount in excess of these amounts. Even if the corporation makes the required donation, when it files that year's tax return and the return shows inadequate tax liability, the excess amount of the donation is no longer claimable during that year or any future year. For example, if DOR preapproved a taxpayer for a $75,000 credit and the taxpayer donated $75,000 but the corporation's actual tax liability was only enough to qualify them for a $60,000 credit, the extra $15,000 cannot be claimed by the corporation and cannot be carried forward.

We analyzed tax returns for the 445 corporations that donated during 2017-2019 and found that 109 (25%) lacked the necessary tax liability to claim the full donation amount, with approximately $1.60 million in excess credits. Taxpayers have claimed less than $68,000 of these excess credits; however, the remaining $1.54 million is available to be claimed in future years (in carryforward amounts).

DOR does not have a process to ensure that claimable amounts are reduced when taxpayers' tax liability as reported on their tax returns is insufficient. DOR's form IT-QEE-TP2—which taxpayers submit along with their tax returns when claiming a credit—includes a formula to calculate the amount of credit allowed based on the tax liability or income. Although the form is intended to be used to calculate how much credit the taxpayer can earn that year, it is not used to identify excess amounts or make adjustments. As a result, taxpayers can carry forward amounts for use in future tax years.

Individuals with Income from Pass-Through Entities

Pass-through

A legal business entity that passes income on to the owners and/or investors of the business. Income is taxed only at the owner's individual tax rate for ordinary income.

Individual taxpayers who receive income from pass-through entities such as Limited Liability Companies (LLCs), S-Corporations, or partnerships can qualify for up to $10,000 in tax credits—or $20,000 if a married couple files a joint return and both have separate ownership interests in pass-through entities. By contrast, individual taxpayers who do not receive income from such entities are limited to a maximum of $2,500 in credits.[8]

For individual taxpayers who are preapproved for a credit based on pass-through income, the total credit allowed cannot exceed the tax liability associated with that income. To calculate the tax liability, all Georgia income, loss, and expense from the taxpayer selected pass-through entities are combined to determine Georgia income and multiplied by the applicable marginal tax rate (5.75%). Therefore, to qualify for a $10,000 credit, a taxpayer must have received at least $173,913 in net Georgia taxable income to have produced the necessary tax liability ($173,913 x 5.75% = $10,000).

During 2017-2019, DOR approved $63.0 million in donations made by 10,649 individual taxpayers who qualified for the higher credit limits based on an affiliation with a pass-through entity. However, DOR has not systematically confirmed that these taxpayers (1) actually have an ownership interest in any pass-through entity or (2) receive enough income from the pass-through entity to qualify for the amount of tax credit approved and claimed.

DOR stated that "there are no controls for verifying pass-through entities in the Taxpayer Services Division (TSD) processing" and that "TSD does not compare pass-through income in our processing." It should be noted that taxpayers are not currently required to identify the pass-through entity they are associated with when applying for or claiming the credit. However, if the identity of each pass-through was included

[8] Individuals filing as single can receive $1,000 in tax credits; married filing separately can receive $1,250; married finding jointly can receive $2,500.

on the application forms and the forms (IT-QEE-TP2) used to claim the credit, a DOR audit could verify that the tax liability requirements were met.

RECOMMENDATIONS

1. DOR should develop processes to identify approved tax credit amounts that exceed the taxpayers' tax liability and adjust those amounts.
2. DOR should require that taxpayers identify the pass-through entities from which they are claiming income.

Finding 3: Georgia's administrative fee percentages generally align with those in other states with similar scholarship programs.

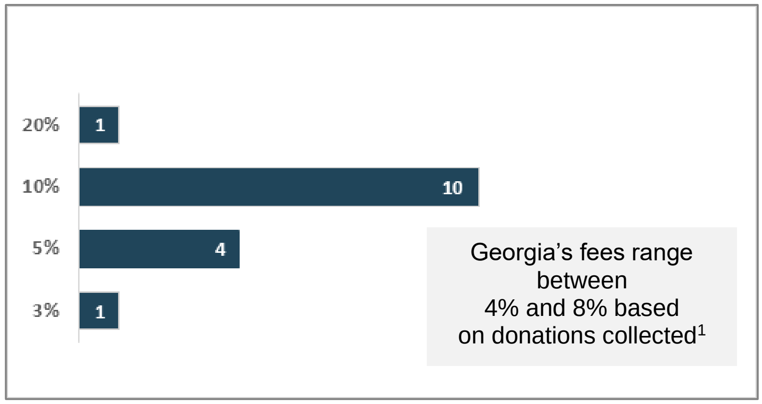
Like Georgia, all other states with similar tax credit scholarship programs rely on third-party nonprofit scholarship organizations to collect taxpayer donations and distribute the funds as scholarship awards. Additionally, all states permit these organizations to retain a portion of donations as an administrative fee, and the percentages generally align with Georgia's. However, Georgia is unique in that it applies a tiered structure that marginally reduces the permitted percentage retained as SSOs collect more in donations.

We compared Georgia's student scholarship program to those in 16 other states that provide similar tax credit student scholarships and found that administrative structure and fee percentages are similar, as described below.

- **Administrative Structure** – Rather than relying on state entities, Georgia and all other states with similar programs rely on third-party nonprofit SSOs[9] to collect taxpayer donations and distribute funds for student scholarships.
- **Administrative Fees** – Georgia and all other states with similar tax credit scholarship programs allow SSOs to retain a percentage of donations collected as an administrative fee. These percentages range from 3% to 20%; however, as shown in **Exhibit 10**, most states limit fees to 5% or 10% of donations. Georgia's sliding fee scale of 4% to 8% is largely in line with this group of states. See Appendix I for the maximum allowable administrative fee percentages each state permits.

[9] Although scholarship organizations are given a variety of names in other state programs (e.g., scholarship-granting organization, scholarship-funding organization), all essentially perform the same functions as the student scholarship organizations in Georgia. For simplicity, we refer to the other state scholarship program nonprofit entities using the name established in O.C.G.A., student scholarship organizations (SSOs).

Exhibit 10
Most States Limit SSO Fees to 5%-10% of Donations Collected



[1] SSOs operating in Georgia may retain up to 8% on the first $1.5 million in donations they collect, 6% on $1.5 million to $10 million, 5% on $10 million to $20 million, and 4% on donations exceeding $20 million.

Source: O.C.G.A.§ 20-2A-2 and Other States' Laws

While Georgia is similar to other states in the percent of administrative fees permitted, its tiered structure is unique. Rather than setting a fixed percentage, Georgia marginally decreases the percentage of donations SSOs may retain as their total collections increase (from 8% on the first $1.5 million to 4% for donations above $20 million—see text box). This structure appears to presume that as SSOs collect more donations, they will gain economies of scale and reduce their costs, thus allowing a greater percentage of donations to be used for student scholarships. It may also encourage smaller and/or newly formed SSOs to participate in the scholarship program because they are permitted to retain a higher percentage of donations collected.

In 2019, the available tax credit cap was increased from $58M to $100M.
The maximum-allowable administrative fees also changed.

Administrative Fee from: 2013-2018	Donations Collected	Administrative Fee from: 2019-Present
10%	First $1.5M	8%
7%	$1.5M to $10M	6%
6%	$10M to $20M	5%
5%	Over $20M	4%
Source: DOAA analysis of Georgia statute		

As shown in the previous exhibit, Georgia's prior fee structure was also generally aligned with other states' fee limits and structure.

Finding 4: Due to insufficient data, it is not possible to fully evaluate whether administrative fees retained by SSOs are reasonable compared to their expenses.

It is currently not possible to calculate operating ratios that would help determine the reasonableness of administrative fees that all SSOs retained. Complete data on administrative revenue and administrative expenses is not available despite multiple information sources, including statutorily required reports. If the General Assembly desires reporting on ratios of administrative revenues to administrative expenses, it could define what items should be included in the categories and require that they be verified by a certified public accountant (CPA) as part of SSO compliance audits. If the General Assembly desires public transparency of these figures, it could permit the publication of this information.

As noted in the prior finding, the maximum allowable fee percentages permitted under Georgia's law align with those in other states. However, another measure of "reasonableness" is the ratio of administrative revenues to administrative expenses, which assesses the degree to which the administrative fees retained were greater than the costs associated with operating an SSO.

- **Administrative Revenue** – Administrative revenue represents the amount SSOs retain from their total revenue (donations collected) not obligated for scholarships. [10]
- **Administrative Expenses** – Administrative expenses typically include costs related to SSO operations (e.g., staff salaries, information technology equipment, rent, and utilities).[11] In compliance audits we reviewed, SSOs appeared to vary on what items they included as an "administrative expense." It should be noted that a separate assessment could include whether items that make up administrative expenses (e.g., payroll, lobbying efforts) are "reasonable."

Due to inconsistent information provided to DOR and a lack of data in publicly available documents, as well as statutory restrictions, we cannot evaluate and report whether administrative fees retained by SSOs can be considered reasonable. These issues are discussed below.

Data provided to DOR

SSOs are statutorily required to have an independent CPA annually audit their accounts and report compliance with statute. SSOs have generally complied with the requirement to submit compliance reports to DOR. However, state law does not require SSOs to explicitly report administrative revenues and administrative expenses in the compliance audits.

Using data from the compliance audits, we attempted to compile a complete record of administrative expenses and revenues by SSO; however, it was not possible because

[10] State law specifies the maximum allowable percentage of donations SSOs may retain. We could determine that some SSOs did not retain the maximum allowable amounts, but we were unable to identify an exact administrative revenue figure in many instances.

[11] For our analysis, we defined "administrative expenses" as any expenses not obligated for scholarships.

of a lack of consistency and detail in the reports. In 2018,[12] approximately half of the SSOs (11 of 25) included categories of administrative expenses and identified administrative revenue in their compliance audits. While we could have run a calculation, it is not clear that all SSOs were categorizing funds similarly because the statute does not define the terms.

Since 2019, SSOs have been statutorily required to annually file a report of "fees or assessments retained" with DOR. In January 2020, 23 of 24 SSOs complied with this requirement and self-reported the annual total of administrative fees retained.[13] While administrative revenues are now available as self-reported information, SSOs are not required to report administrative expenses.

It should be noted that the information described above cannot be reported outside DOR. State law classifies the compliance reports and the record of administrative fees as "confidential taxpayer information" and restricts this data from being published. As a result, even had we been able to analyze administrative revenues and administrative expenses, we could not report the results. Additionally, while SSOs reported retaining a total of approximately $4.2 million in administrative fees, we are prohibited from reporting the amount by SSO. (See text box below for applicable code sections.)

O.C.G.A. § 48-7-29.16(f6)*: "each student scholarship organization shall file an annual report with the department showing any fees or assessments retained by the student scholarship organization during the calendar year."*

O.C.G.A. §20-2A-3(a6): "*[except for explicitly identified information to be reported by the Department of Revenue], all information or reports provided by student scholarship organizations to the Department of Revenue shall be confidential taxpayer information."*

Other sources

We tried to obtain administrative revenue and expenses using publicly available data. As 501(c)(3) nonprofit organizations, most SSOs are required to annually file a Form 990 (or 990 EZ) with the Internal Revenue Service (IRS). While these forms include revenue and expenses[14] among other required information, they do not specify administrative revenues in a way that permits an administrative operating ratio analysis.

RECOMMENDATIONS

1. To ensure a reliable ratio of administrative revenues to administrative expenses can be calculated, the General Assembly should define these terms in statute and require they be reported.
2. To ensure reported data is independently verified, the General Assembly should require it be attested to as part of the required compliance audits.
3. If the General Assembly wants to increase transparency of financial and compliance reporting to the general public, it could statutorily permit or require the publication of SSOs' compliance audit results.

[12] This is the last full year for which all compliance audits are available because of DOR reporting requirements.

[13] One SSO that was previously active ceased operations in 2018, bringing the total to 24 SSOs.

[14] 990s report total revenue as well as expenses in the following categories: program services, management & general, and fundraising expenses.

Finding 5: Additional statutory oversight and reporting requirements can improve the fund and scholarship management information available to decision makers.

While SSOs generally comply with current requirements to complete and submit compliance audits and summary reports to the state, increased legislative oversight and additional legal measures are required to fully assess SSO compliance with state law. Without additional legal authority, the Department of Audits and Accounts cannot compel additional information from SSOs.

State law provides relatively little guidance on the intent of the student scholarship program.[15] However, state law has established several requirements for fund management and scholarship distribution; we used these requirements as a proxy for "intent," with statutory compliance indicating that the intent has been met. The primary mechanism for assuring SSOs comply with statute is through compliance auditing and reporting to the state. We reviewed compliance audits and other reports for the SSOs' 2018 fiscal year.

As shown in **Exhibit 11**, not all SSO legal requirements relevant to fund and scholarship management activities have been verified and reported in independent compliance audits, nor are details regarding scholarship management practices or detailed scholarship reports provided.

SSOs submitted compliance reports that varied significantly in content. This may be due to differing interpretations by the SSOs on what statutory requirements must be reported on and/or independently verified. The differences are described below.

- **Explicit requirement to report verified information** – O.C.G.A. § 20-2A-2 specifically requires SSOs to have an independent CPA annually "conduct an audit of its accounts" to verify the organization has complied with all requirements of the code section "including, but not limited to, financial requirements." As such, the audit only has to verify that O.C.G.A. § 20-2A-2 requirements are met, not the rest of O.C.G.A. Chapter 20-2A. The compliance audit is the only form of information reported by SSOs that must be independently verified.

  As shown in **Exhibit 11**, compliance audits generally (but not always) reported on fund management requirements more consistently than scholarship management requirements.

  As discussed in the next finding, additional oversight by DOR is needed to ensure reports contain required information and verification.

- **Requirement to report but no requirement to verify information** – O.C.G.A. §§ 20-2A-3 and 48-7-29.16 require SSOs to submit to DOR program

[15] We were asked to determine whether SSOs direct contributions according to the "intent of the law." Legislative intent may be identified through language regarding purpose, goals, or expected outcomes. State law related to the student scholarship program does not explicitly identify the "intent" of the scholarship program; the originating bill states that the qualified education expense tax credit provides funding "for a program of education improvement."

summary reports and the administrative fees retained.[16] While nearly all SSOs submitted these reports, the information is not required to be independently verified by a CPA.

Exhibit 11
Not All Relevant Legal Requirements Were Independently Verified and/or Reported to the State for Fiscal Year 2018[1]

Statute Requires Reporting and Verification	
SSO Requirements & Compliance Audit (§ 20-2A-2)	Report Rate
Compliance audit conducted by a licensed CPA	24 of 24
Audit completed within 120 days after fiscal year	16 of 24
Overall Compliance	
Issued general (overall) statement of compliance	8 of 24
Fund Management	
Audit of accounts conducted	22 of 24
Unqualified opinion received	22 of 24
Maintained separate accounts (scholarship & operating)	16 of 24
Obligated minimum % of donations for scholarships	17 of 24
Scholarship Management	
Obligated funds to "specific student recipients" by end of year after donation is received	11 of 24
Considered financial needs of students	3 of 24
Did not award scholarships greater than legal limit[2]	2 of 24
Governance	
Has an independent board with at least 3 members	2 of 24
Statute Includes Requirement to Report – No Requirement to Verify	
Summary and Fee Reports (§ 20-2A-3 & 48-7-29.16-f6)	Report Rate
Submitted program summary reports	24 of 24
Submitted administrative fee reports	23 of 24
Statute Includes No Requirement to Report	
Student and School Eligibility (§ 20-2A-1)	Report Rate
Awarded scholarships only to eligible students	1 of 24
Awards scholarships only to students of qualified schools	2 of 24
Awards scholarships to students of more than one school	3 of 24
Donor Restrictions (§ 48-7-29.16-d1)	Report Rate
Did not allow donors to designate funds for direct benefit of a specific individual (such as a dependent)	0 of 24

[1] We identified how often any particular statutory requirement was present in audits we reviewed. "Report Rate" signifies how often compliance audits provided evidence or testimony that a specific statutory requirement was met. It should not be interpreted as an inventory of how many SSOs were fully compliant with their compliance reporting obligations. Each category stands alone. For example, in 8 of 24 audits a report contained a statement that the SSO complied with O.C.G.A. § 20-2A-2. In 2 of 24 audits, evidence of a three-member board was reported. In all cases, when an SSO reported general compliance, they also reported on one or more specific requirement as well. For a more detailed discussion of compliance review, see Finding 6.

[2] Scholarship awards must not exceed the average annual state and local expenditures per student in public/secondary school.

Source: SSO Compliance Audits

[16] Administrative fees have been required to be reported since 2019.

- **No requirement to report** – SSOs have several requirements directly related to scholarship management practices that are not required to be reported to the state. Requirements include ensuring that only eligible students attending qualified schools are awarded funds and that donors do not designate funds for a particular student. Despite not being required, a small number of SSO compliance audits did include verification statements on these topics.

  However, because compliance audits do not typically include information related to legal requirements outside of O.C.G.A. § 20-2A-2, little information is coming to the state regarding whether the SSOs are actually complying with these scholarship management requirements under other code sections.

Due to the information lacking in the above compliance reports, we attempted to obtain data directly from the SSOs, though this relied on voluntary participation because we do not have authority to compel information and records from SSOs. We sent SSOs questionnaires asking about the standards and practices they use to ensure compliance with state law and whether they would provide data that would verify the accuracy of the activity reports they submitted to DOR. We received responses from approximately half of active SSOs that self-reported they complied with requirements and restrictions related to scholarship disbursement; however, too few were willing to provide documents and data necessary to verify those practices.

RECOMMENDATIONS

1. The General Assembly should consider changing state law to more definitively identify the requirements SSOs must have verified and reported in compliance audits.
2. The General Assembly may want to require SSOs to submit to DOR supporting data that would allow the state to verify the accuracy of summary reports.
3. The General Assembly should consider modifying state law if it wants to permit certain state agencies access to SSO data in order to execute a more complete evaluation of fund management and scholarship distribution practices and compliance.

Finding 6: DOR and GaDOE can improve processes to better ensure SSO compliance with state law and agency requirements.

DOR generally identified and responded to SSOs when they failed to submit reports and data required by state law, but the agency did not notify noncompliant SSOs in a timely manner. In addition, noncompliant SSOs were not removed from GaDOE's list of active SSOs in a timely manner. DOR also failed to detect whether reports submitted by SSOs verified that organizations complied with all their statutory requirements. Therefore, many SSOs failed to comply with the state law but were not appropriately identified as noncompliant.

DOR is responsible for collecting SSOs' statutorily required compliance audits. When SSOs are not compliant, DOR and GaDOE are responsible for taking action. As described below, we found that both agencies need to improve their processes. It should be noted that DOR officials stated that any significant expansions of state oversight and monitoring may require additional staff to execute.

- **Verifying Statutory Compliance** – DOR generally collected all documents the SSOs are required to submit to the state. However, the agency failed to identify instances when compliance audits did not contain evidence that auditors verified all the requirements established in O.C.G.A. § 20-2A-2.[17] We found that DOR staff do not routinely ensure that all requirements are reported in the compliance audits. As described in the previous finding, very few SSOs submitted compliance audits that specifically showed evidence that all requirements in O.C.G.A. § 20-2A-2 were met, though approximately one-third of the compliance audits did contain a general statement that all requirements were met.

  It is worth noting that 8 of 24 compliance audits were not completed within 120 days of the respective SSO's fiscal year end, as required by O.C.G.A. § 20-2A-2. On average, these audits were completed approximately four months after the legally required due date, though two SSOs completed their audits approximately eight to nine months after they were required. Because DOR does not require SSOs to submit audits to the state within 120 days after the SSO's fiscal year,[18] DOR failed to identify instances when SSOs did not complete audits on time.

  Additionally, anecdotal evidence from compliance audits indicated that in some instances auditors are applying legal requirements that are no longer in effect or have been modified from prior years. For example, we found instances in 2019 audits where CPAs applied outdated standards regarding the minimum percent of donations to obligate for scholarships and permission to carry forward 25% of donations to the following year. Carryforward permissions were removed from state law in 2013, and minimum obligated scholarship percentages were adjusted upward in 2019.

- **Responding to Noncompliance in a Timely Manner** – O.C.G.A. § 20-2A-7 requires DOR to provide written notice to noncompliant SSOs and allow 90 days for the organization to come into compliance.

  However, state law does not specify how soon a notification letter should be sent after DOR identifies a noncompliant SSO. During calendar years 2018-2020, DOR sent notification letters to the 15 SSOs they identified as noncompliant due to a lack of document submission. On average, letters were not issued until approximately five months after SSOs failed to comply with the agency's January 12th submission deadline. DOR subsequently sent 12 follow-up letters to SSOs notifying them of their failure to come into compliance, but these final notification letters were issued four to five months after the initial notice instead of three months (90 days).

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[17] Our review of compliance audits was limited to those submitted by SSOs for their fiscal year that ended during calendar year 2018.

[18] DOR requires compliance audits to be submitted on or before January 12th of the year "following the completion of the audit report." As a result, an SSO with a fiscal year end of December 31, 2020 would not have to submit their report to DOR until January 12, 2022. If the SSO did not complete its audit until November 2021 (past the April 2021 deadline), DOR would not be aware of this noncompliance.

Once notified of these instances, DOR staff indicated that in 2021 they will begin sending out noncompliance notification letters in March and final notification letters in July.

- **Removing Noncompliant SSOs in a Timely Manner** – O.C.G.A. § 20-2A-7 states that SSOs that fail to come into compliance after notification must be removed from the GaDOE list of active SSO providers maintained on the agency's website. However, we found five instances where GaDOE did not remove noncompliant SSOs from the list for several months—or even years—after DOR issued a final notification letter to the SSO. In such instances, potential stakeholders (e.g., donors and schools) would have no way of knowing that these SSOs were no longer authorized to operate and accept donations.

- **Verifying with Secretary of State Records** – It was brought to our attention during the examination that GaDOE does not review the Secretary of State's records periodically to ensure that SSOs are legally authorized to operate in the state. We found one instance in which the Secretary of State issued a cease-operations notice to an SSO, but it remained on the active provider list. This practice is not required by state law but should be adopted by GaDOE.

RECOMMENDATIONS

1. DOR should review compliance audits to ensure they contain evidence that CPAs verified all O.C.G.A. § 20-2A-2 financial and nonfinancial requirements.
2. DOR should send noncompliance and final notification letters to SSOs in a more timely manner in accordance with O.C.G.A. §§ 20-2A-2 and 20-2A-7.
3. DOR and GaDOE should work together to better ensure that SSOs are removed from the active SSO provider list as soon as DOR issues a final notification letter.
4. GaDOE should ensure that SSOs published as active providers are not prohibited from operating in the state according to Secretary of State records.

GaDOE's Response Recommendation 3: GaDOE indicated that once notified by DOR that an SSO should be removed from the active list, it will do so, post the amended list on its website, and provide DOR a copy of the amended list.

GaDOE's Response Recommendation 4: GaDOE indicated it does not have the authority under state law to enforce the recommendation.

Auditor Response: This issue needs to be further explored with the Office of Attorney General and/or Legislative Counsel to determine whether GaDOE is correct about the limitations of its authority. If they do not have this authority, a remedy should be pursued.

Finding 7: Other states have established practices that enhance financial, compliance, and program reporting and expand the accountability and transparency of their scholarship programs.

While the General Assembly has established measures that provide transparency and accountability for the student scholarship program, other states have developed additional measures that could enhance these systems. In some cases, modest adjustments to existing requirements would bring Georgia closer in line with best practice states.

We reviewed tax credit scholarship program laws of four states (Florida, Alabama, Louisiana, and Indiana) identified as having the most robust accountability and transparency measures by the American Federation for Children (a school choice advocacy group). Based on that review, we identified areas where the General Assembly can change state law to improve the transparency and accountability of the student scholarship program.

Reporting Requirements

We categorized reporting into three categories: financial and compliance, donations, and scholarships. As shown in **Exhibit 12**, Georgia currently requires SSOs to report some, but not all, of the items that other states require. These items are discussed below.

Exhibit 12
Georgia Can Improve Transparency and Accountability with More Comprehensive Reporting

	IN	LA	AL	FL	GA
REPORTING					
Financial and Compliance					
Compliance reviews[1]	●	●	●	●	●
Review by CPA	●	●	●	●	●
Financial audit (explicitly identified)	●	○	○	●	○
Audit results made public	●	○	○	○	○
IRS-990 forms submitted to state	○	○	○	●	○
Donations					
Total number and dollar amount of donations[2]	●	●	●	○	●
List of each donor and their donation amount	○	●	○	○	●
Scholarships					
Number of scholarships and total dollar amount awarded	●	●	●	●	●
Number of schools that have scholarship-receiving students	○	○	●	●	○
Number of scholarships and dollar amount per school	○	○	●	○	○

[1] All five states have statutes in place deeming SSOs as noncompliant for failing to submit certain required documents to their respective state agencies.

[2] Florida requires SSOs report the total dollar amount of donations, but not total number of donations.

Source: O.C.G.A. and Other States' Laws

- **Financial and Compliance Reporting** – O.C.G.A. § 20-2A-2 requires SSOs to have an independent CPA annually “conduct an audit of its accounts” to verify the organization has complied with all requirements of the code section “including, but not limited to, financial requirements.” Financial and compliance reviews and reporting are common among best practice states.

  Unlike Florida and Indiana, Georgia law does not specify whether compliance audits must include a financial audit. Most of the compliance audits the SSOs have submitted to DOR include a financial audit, but some do not. DOR staff indicated that these reports comply with state law as it is currently written.

  - **Public Availability of Financial Reporting** – Georgia law currently classifies compliance audits (including audits of accounts therein) as confidential taxpayer information that is not subject to public disclosure. Indiana requires that financial audits be made available to members of the public upon request. While the SSO in Georgia that handles the most donations publishes its compliance audit on its website, this is not common practice.

    Additionally, the IRS requires nonprofit organizations (which would include the SSOs) to make their annual IRS form 990s publicly available (e. g., on a website or upon request). These forms provide financial, governance, and staffing information. Florida requires scholarship organizations to submit their annual IRS form 990s to the state.

- **Donation Reporting** – Georgia law requires SSOs to report summary information about donors (e.g., number/type of donors, amount of donations). In addition, SSOs must annually submit to DOR a list of all taxpayers and the amount of their donation, which DOR uses to establish the amount of the tax credit taxpayers are eligible to claim. These requirements meet or exceed those in other states we reviewed.

- **Scholarship (School) Reporting** – Georgia law requires SSOs to annually submit to DOR summary scholarship figures (e.g., the total number of scholarships and the total amount of dollars awarded). However, neither SSOs nor participating schools must submit detailed records such as which school scholarship recipients attend. Some states we reviewed require reporting that includes the number of schools with scholarship-receiving students.[19]

- **Scholarship (Student) Reporting** – Georgia law requires SSOs to report summary-level information on the number of scholarship recipients whose families are in each bracket of Federal Poverty Level, as well as the average scholarship dollar amount for each bracket. However, the state does not require detailed information (e.g., eligibility criteria met, prior school attended, or academic progress) that would allow decision makers to evaluate

[19] Georgia law (O.C.G.A. § 20-2-690) requires private school administrators to report to school superintendents which residents are enrolled in their private schools. We found GaDOE’s list of private schools to be incomplete when compared to schools identified on SSO webpages as participating in the scholarship program. Specifically, we identified 185 schools not included on the list of 633 GaDOE approved private schools.

program outputs and achievements. By contrast, Alabama requires SSOs to report individual scholarship award dollar amounts by student and school.[20] Additionally, Alabama and Florida evaluate test scores of students receiving scholarships to other similar public school students, and Louisiana requires its state Department of Education to publicly report state test scores for scholarship-receiving students.

During this review, one SSO reached out to us and suggested that additional actions (such as collecting student level data about enrollment, attendance, and assessment outcomes) would improve transparency and accountability for the program.

Student Scholarship Organization Operations

We identified three categories of scholarship organization operations that could increase transparency and accountability into the scholarship program: financial management, program design/operations, and staffing. As shown in **Exhibit 13**, Georgia currently requires or prohibits some of the practices and operations established in other states. These items are discussed below.

Exhibit 13
Georgia Can Improve Transparency into and Accountability of SSO Operations

	IN	LA	AL	FL	GA
SSO Operations					
Financial Management					
Maintain separate operating/scholarship funds	○	○	○	●	●
Requires certain percentage for scholarship distribution	●	●	●	●	●
Income earned from donations must be used on scholarships	●	○	●	○	○
Funds remitted to state if not disbursed to students on time	○	●	●	○	○
Program					
Forbids designating donation for specific student	○	●	●	●	●
Prohibits SSOs from working with only one school	●	●	●	●	●
Report methodology used to evaluate student eligibility	○	○	●	●	○
SSO (not school) must determine student eligibility	○	○	●	●	○
Prohibits political activity using administrative revenue	○	○	○	●	○
Staff					
Must conduct background check on SSO employees	●	●	●	●	○

Source: O.C.G.A. and Other State's Laws

- **Financial Management** – Like other states, Georgia requires separate accounts for operating and scholarship funds and that SSOs commit a minimum percentage of donations to scholarship funds.

[20] It should be noted that even if this identifiable student information is reported to a state agency it could still remain confidential to the public by designating that only agencies with oversight responsibility have access to it.

However, while O.C.G.A. § 20-2A-2 permits SSOs to use money collected for scholarships in interest bearing accounts, the law does not state whether interest earned should be dedicated to scholarship funds or may be retained by the SSO.[21] Alabama and Indiana laws require organizations to expend all interest earned on investments on scholarships.

In addition, three states' laws explicitly require SSOs to expend donations received in one year on scholarships by the end of the next year (i.e., "use it or lose it").[22] Alabama and Louisiana require funds not expended to be remitted to their state's Department of Education, while Florida requires such funds to be distributed to another SSO.

By contrast, O.C.G.A. § 20-2A-2 establishes that funds collected by SSOs must be "**obligated and designated**" for "specific student recipients" by the end of the year after the funds were donated. However, state law does not establish a specific time period for when the SSOs must actually **distribute (transfer)** scholarship funds to students. As a result, SSOs operating in Georgia would be able to keep "**obligated and designated**" funds and managing them for an extended period. Due to limitations in our ability to access SSO information (see page 15), we are not able to determine the extent to which this was actually occurring.[23]

- **Program Operations** – As described below, while Georgia is similar to other states for some prohibitions, state law could be revised to increase assurances related to student eligibility.
    - **Prohibited Actions** – Like some other states we reviewed, Georgia law forbids a taxpayer from designating that a specific student receive funds from their donation. This prohibition is designed to prevent a guardian from using the tax credit as a tax avoidance mechanism while ensuring a scholarship for a dependent. Further, Georgia law prohibits SSOs from working with only one school to prevent a single private school from creating and operating its own SSO. However, as discussed in Finding 5, there is limited information available to assess compliance with these prohibitions.
    - **Student Eligibility** – Although Georgia law establishes eligibility criteria for student scholarship recipients and the schools they attend, the state does not require SSOs to report the method they use to meet these criteria. Alabama and Florida laws require SSOs to report any criteria or methodology used to evaluate student eligibility for scholarships.

      Furthermore, Alabama and Florida require the SSOs to determine student eligibility rather than allowing the schools where students attend to do so. Georgia law seems to imply that SSOs must determine student eligibility but does not explicitly prohibit SSOs from

[21] Georgia law also does not clarify whether SSOs are obligated to replace donations (principal) lost through investments.

[22] For example, donations received in fiscal year 2020 must be distributed as a scholarship before the end of fiscal year 2021.

[23] See Finding 8 for additional discussion of risk that occurs if an SSO has ceased to operate and has not distributed its obligated and designated funds.

allowing schools to execute this activity on behalf of the SSO. Some SSOs reported that they rely on schools to establish student eligibility.

- **Lobbying Restrictions** – Florida law prohibits its SSOs from using administrative revenue gained from donations on any lobbying or political activities. However, neither Georgia nor the other three states reviewed have this restriction.

- **SSO Staff** – Georgia law does not require SSOs to perform background checks on employees. Alabama, Florida, Indiana, and Louisiana all require background checks for some or all employees and prohibit employment based on negative results (e. g., criminal conviction).

  It is worth noting that a background check may have identified the following case in Georgia: The president of an SSO operating in Georgia is currently awaiting sentencing after a 2016 guilty plea to a major securities fraud involving global hacking and investment fraud. The SSO collected approximately $760,000 in donations in 2019.

RECOMMENDATIONS

1. If the General Assembly would like to adopt the financial accounts oversight and reporting practices in other states, the law should be changed to explicitly require financial audits.
2. If the General Assembly wants to increase transparency of financial and compliance reporting to the general public, state law should be changed to reclassify compliance audits and establish mechanisms to make them publicly available.
3. If the General Assembly would like additional financial, governance, and staffing information about SSOs, state law should be changed to require SSOs to submit Form 990s to DOR.
4. If the General Assembly wants to have detailed information about schools that enroll students participating in the scholarship program, state law should be changed to require the reporting of this information to the state.
5. If the General Assembly intends for interest earned on donations to be dedicated to scholarships, the law should be changed to require it.
6. If the General Assembly intends for funds to be distributed/transferred to students by the end of the year following the year in which donations were received (instead of only obligating and designating funds), state law should be clarified.
7. If the General Assembly intends for SSOs to be solely/ultimately responsible for determining student eligibility, state law should be clarified.
8. The General Assembly should consider requiring SSOs to conduct background checks on employees.

Major Structural Changes Could Further Increase Transparency and Accountability

Florida has more explicit requirements related to schools, student performance and state agencies than Georgia currently does. These requirements may offer an additional degree of oversight and control, but they constitute an expansion in the state's regulatory scope and may also result in additional costs to SSOs, schools, and the state.

School Requirements – Apart from being accredited under a recognized accreditation association and complying with the Civil Rights Act of 1964, Georgia law has no requirements for private schools participating in the scholarship program. Conversely, Florida's legislature has decided to permit greater oversight over the private schools participating in the program. This ensures greater transparency within the scholarship program and the ability to evaluate its impact on student performance. Florida law requires a participating private school to meet the following criteria.

- Notify the state of its intent to participate in the scholarship program
- Conduct background checks on all school employees and contracted personnel by penalty of being ineligible for participation in the scholarship program if the school employs personnel who failed their background screening
- Employ or contract with teachers who hold baccalaureate or higher degrees and with either some teaching experience or special skills that qualify them to provide instruction in subjects taught
- Provide the state or SSO all documentation the school requires for a student's participation, including the school and student's individual fee schedule and attendance verification
- Provide the state an annual, notarized, sworn compliance statement certifying compliance with state laws and retain records of such annual statements

Student Performance – Georgia does not require reporting on student outcomes. Florida requirements related to student performance include:

- Students in grades 3 through 10 must perform standardized testing identified by the Florida Department of Education annually
- Biennially, contract with a state university to evaluate student performance by collecting standardized test scores of participating students from their private schools and comparing those scores to scores of public school students with similar socioeconomic backgrounds
- Students must comply with policies at the private school they are attending and remain in attendance throughout the school year unless excused by the school for illness or other good cause

State Role – Florida's scholarship program has more explicit duties for its Department of Education than Georgia's program. It must:

- Annually verify eligibility of private schools that meet scholarship program eligibility criteria
- Establish a process by which individuals may notify the department of any violation of state laws related to the scholarship program and conduct inquiries if the department has reasonable cause to believe that a violation of state law has occurred
- Conduct site visits to private schools participating in the scholarship program for the first time, as well as may conduct site visits to any school that is the subject of a complaint of a violation of state law

Finding 8: We identified several additional matters relevant to the tax credit and student scholarship program that the General Assembly and state agencies should consider.

Below are matters for further consideration. These include areas of potential concern that we identified while conducting the project's primary objectives. These issues *may* pose risks to the operations and integrity of the qualified education expense tax credit and/or student scholarship program and should be viewed by decision makers as opportunities for further research or action.

ACCOUNTABILITY AND TRANSPARENCY

1. **Public reporting of SSOs no longer eligible to participate due to noncompliance** – O.C.G.A. § 20-2A-2 requires DOR to post details on its website about SSOs identified as noncompliant and no longer eligible to actively participate as SSOs. However, the record of an SSO removed for noncompliance (or the reason for the removal) is not readily available on the GaDOE website where stakeholders such as school personnel, parents, and students are directed for scholarship program information. To enhance the transparency of the program and provide useful information to all stakeholders, the state could require that GaDOE post a list of SSOs removed from active status for compliance violations.

FUND MANAGEMENT

1. **No oversight and reporting mechanism to confirm scholarship funds are transferred from SSOs that cease operations (voluntarily or involuntarily)** – O.C.G.A. § 20-2A-7 states that SSOs notified by DOR to cease operations due to noncompliance must transfer all scholarship account funds to an SSO in good standing within 30 days. However, state law does not establish an oversight and reporting mechanism to ensure the required fund transfer occurs, and state agencies have not established a method to track funds that should be transferred out of noncompliant SSO accounts. Additionally, state law does not explicitly establish requirements for SSOs that voluntarily cease operations. We were unable to determine whether remaining scholarship fund balances of multiple SSOs that ceased operations were transferred to another SSO or allocated in some other manner.

PROGRAM DESIGN

1. **Tax credit and scholarship supply/demand** – There is currently no mechanism to monitor whether the demand for the qualified education expense tax credit is commensurate with the demand for scholarship funds the credit provides. This is true in the aggregate (all tax credit donations received and all scholarships funds distributed by all SSOs) and by individual SSO.

   The historical demand for the tax credit is well established and documented in segments of this report (see background) However, the demand for scholarship awards is less understood. Information on fund and scholarship management is limited, as discussed in this report (see Finding 5). As such, it not clear whether any given SSO (after collecting donations, retaining a fee, and depositing funds into scholarship account) would necessarily have a corresponding scholarship demand to match the funds collected. It is worth noting that the tax credit cap that is used to fund the scholarship program was increased significantly in 2019.

The aggregate demand for scholarship funds should be evaluated to ensure the scholarship fund demand matches funds made available by the tax credit.

Absent oversight and reporting mechanisms to explicitly monitor and report an SSO's (a) scholarship fund balance over time, (b) practices for obligating and designating funds for specific student recipients, and (c) timeliness of disbursing scholarship funds to students as awards, the state is unable determine whether actual demand for scholarship funds is commensurate to funds the SSO collected. In this report, we have advised the state to clarify its intent for timeliness of fund disbursement to students.

2. **Preapproved but unfunded requests for tax credit are not reintegrated** – The qualified education expense tax credit does not have a mechanism to reintegrate preapproved tax credits that are never earned with a donation. Once DOR preapproves a qualified education expense tax credit, it is essentially "spent" because the preapproved amount is applied against the aggregate annual tax credit limit (e.g., $58 million in 2017 and 2018) even if donors who were preapproved never donated by the 60-day deadline. In these instances, any taxpayers who did not submit a tax credit request to be preapproved prior to the cap being met are unable to donate. By comparison, the Georgia Rural Hospital Tax Credit reopens access to preapproval requests for all unfunded portions of the annual tax credit cap after June 30 of each year. It should be noted that, since the cap was increased to $100 million it has not been met until December.

3. **O.C.G.A. Chapter 20-2A definition of SSOs is outdated** – O.C.G.A. § 20-2A-1 defines an SSO as an entity that allocates at least 90% of donations for scholarships. However, O.C.G.A. § 20-2A-2 was revised in 2019 to require SSOs to allocate at least 92% of donations for scholarship. We found instances in compliance audits from 2019 that attested to complying with allocating at least 90% of annual donations for scholarships.

SSO OPERATIONS

1. **Consideration of student financial need** – O.C.G.A. § 20-2A-2(1.1) requires "each student scholarship organization" to "consider financial needs of students" in awarding scholarships. Some SSOs indicated that they may rely on school officials to establish student financial need. If the General Assembly intends for the SSOs to be solely (or primarily) responsible for considering student financial need, it may need to clarify the point in statute.

2. **SSOs share donor and donation lists with schools** – Some SSOs indicated that they provide schools with a list of donor names and the corresponding amount the donors contributed to the school. Although state law does not prohibit SSOs from sharing this type of information, O.C.G.A. § 48-7-29.16 does prohibit donors from explicitly designating funds "for the direct benefit of any particular individual." If the intent of the law is to prevent donors from benefitting directly from their donation, permitting SSOs to share detailed records of donors and donations may undercut that intent. It is worth noting that some SSOs indicated that providing such a donor list to schools was beneficial to promote school fundraising.

Appendix A: Table of Recommendations

Finding 1: During the last three years, donors have earned $187 million in tax credits, with individuals making up approximately 99% of all donors and approximately 76% of all donations.
No Recommendations
Finding 2: DOR does not have adequate controls to ensure that taxpayers' tax liability is sufficient for the credit amount earned, claimed, and carried forward.
1. DOR should develop processes to identify approved tax credit amounts that exceed the taxpayers' tax liability and adjust those amounts.
2. DOR should require that taxpayers identify the pass-through entities from which they are claiming income.
Finding 3: Georgia's administrative fee percentages generally align with those in other states with similar scholarship programs.
No Recommendations
Finding 4: Due to insufficient data, it is not possible to fully evaluate whether administrative fees retained by SSOs are reasonable compared to their expenses.
3. To ensure a reliable ratio of administrative revenues to administrative expenses can be calculated, the General Assembly should define these terms in statute and require they be reported.
4. To ensure reported data is independently verified, the General Assembly should require it be attested to as part of the required compliance audits.
5. If the General Assembly wants to increase transparency of financial and compliance reporting to the general public, it could statutorily permit or require the publication of SSOs' compliance audit results.
Finding 5: Additional statutory oversight and reporting requirements can improve the fund and scholarship management information available to decision makers.
6. The General Assembly should consider changing state law to more definitively identify the requirements SSOs must have verified and reported in compliance audits.
7. The General Assembly may want to require SSOs to submit to DOR supporting data that would allow the state to verify the accuracy of summary reports.
8. The General Assembly should consider modifying state law if it wants to permit state agencies access to SSO data in order to execute a more complete evaluation of fund management and scholarship distribution practices and compliance.
Finding 6: DOR and GaDOE can improve processes to better ensure SSO compliance with state law and agency requirements.
9. DOR should review compliance audits to ensure they contain evidence that CPAs verified all O.C.G.A. § 20-2A-2 financial and nonfinancial requirements.
10. DOR should send noncompliance and final notification letters to SSOs in a more timely manner in accord with O.C.G.A. §§ 20-2A-2 and 20-2A-7.
11. DOR and GaDOE should work together to better ensure that SSOs are removed from the active SSO provider list as soon as DOR issues a final notification letter.
12. GaDOE should ensure that SSOs published as active providers are not prohibited from operating in the state according to Secretary of State records.

Finding 7: Other states have established practices that enhance financial, compliance, and program reporting and expand the accountability and transparency of their scholarship programs.
13. If the General Assembly would like to adopt the financial accounts oversight and reporting practices in other states, the law should be changed to explicitly require financial audits.
14. If the General Assembly wants to increase transparency of financial and compliance reporting to the general public, state law should be changed to reclassify compliance audits and establish mechanisms to make them publicly available.
15. If the General Assembly would like additional financial, governance, and staffing information about SSOs, state law should be changed to require SSOs to submit Form 990s to DOR.
16. If the General Assembly wants to have detailed information about schools that enroll students participating in the scholarship program, state law should be changed to require the reporting of this information to the state.
17. If the General Assembly intends for interest earned on donations to be dedicated to scholarships, the law should be changed to require it.
18. If the General Assembly intends for funds to be distributed/transferred to students by the end of the year following the year in which donations were received (instead of only obligating and designating funds), state law should be clarified.
19. If the General Assembly intends for SSOs to be solely/ultimately responsible for determining student eligibility, state law should be clarified.
20. The General Assembly should consider requiring SSOs to conduct background checks on employees.
Finding 8: We identified several additional matters relevant to the tax credit and student scholarship program that the General Assembly and state agencies should consider.
No Recommendations.

Appendix B: Objectives, Scope, and Methodology

Objectives

This report examines the Student Scholarship Program (SSP), which consists of the Qualified Education Expense Credit (QEEC) and the activities by participating student scholarship organizations (SSOs). Specifically, our examination set out to determine the following:

1. How are credits under the qualified education expense tax credits disbursed?
2. Do student scholarship organizations retain a reasonable administrative fee?
3. Do student scholarship organizations direct contributions according to the intent of the law?
4. Can measures be taken to improve transparency and accountability to improve the integrity of future donations?

Scope

This special examination generally covered calendar years 2017 through 2019 with consideration of earlier or later periods when relevant. Information used in this report was obtained by reviewing relevant laws, rules, and regulations; interviewing agency officials and staff from the Department of Revenue (DOR), the Georgia Department of Education (GaDOE), and SSOs; analyzing data and reports by DOR, GaDOE and SSOs; reviewing previous audit work conducted by our office, studies from EdChoice and the American Federation for Children, and reviewing state laws of other states.

We obtained data from DOR's Integrated Tax Solution Governance (ITSG) system on taxpayers who have contributed to the QEEC for tax years 2017, 2018 and 2019. We assessed the data used for this examination and determined the data used were sufficiently reliable for our analyses.

We obtained all reports submitted by SSOs to DOR (as required in statute) since 2016. These included SSO compliance audits, activity reports, and donor lists.

We obtained GaDOE documents related to their administration of the SSP. These included annual notices of participation submitted by SSOs since 2016 and all iterations of GaDOE's list of active SSOs since 2016.

Government auditing standards require that we also report the scope of our work on internal control that is significant within the context of the audit objectives. Each of the four objectives includes an assessment of compliance with state law. We gained an understanding of agency controls related to agency processes to ensure compliance. When noncompliance was identified in objective 4, we reviewed the internal controls to identify any deficiencies. Methods to establish internal control include: review of agency oversight responsibilities, SSO reporting requirements as established in O.C.G.A. § 48-7-29.16 and Chapter 20-2A; DOR's regulation on the SSP; and methods and procedures adopted by DOR divisions to meet the agency's mission, goals, and objectives in administering the QEEC. In addition, the processes for planning, organizing, directing, and controlling program operations and the systems for measuring, reporting, and monitoring program performance are part of a system of internal control. Specific information related to our work is described by objective in the methodology section below and deficiencies identified are noted in the findings.

Methodology

To describe how QEEC tax credits are disbursed, we analyzed DOR tax return data for all taxpayers that were preapproved for QEEC tax credits in 2017 through 2019. We used taxpayer data to differentiate between credits granted to individual and corporate taxpayers, and to describe income levels of individual taxpayers. We also used DOR tax credit and tax return data to identify the total amount of credits that taxpayers were preapproved, the amount available for taxpayers to claim, the amount of credits that were claimed, and the amount of credits that were carried forward and are claimable in the future. Additionally, we reviewed state law to identify compliance requirements related to taxpayer donations to SSOs. We used DOR donation data to determine whether taxpayer donations complied with the identified requirements.

To determine whether SSOs retain a reasonable administrative fee, we reviewed documents compiled by EdChoice (a school choice advocacy group) and state laws of 16 other states with active tax credit scholarship programs. To determine whether Georgia's fee limits imposed on SSOs are reasonable, we compared fee percentages of Georgia to those in other states. It should be noted that while statutes in some states (including Georgia) only require SSOs to obligate minimum required percentages of revenues for scholarships, we treated the inverse of this obligation as the maximum permitted administrative fee for comparison purposes.

To determine maximum permitted administrative fees, we reviewed Georgia SSO documents that contained information on administrative fees or annual donations collected. These documents included compliance audits, submitted copies of DOR's IT-QEE-SSO2, and copies of Form 990 of the Internal Revenue Service (IRS) as submitted by SSOs.

To assess the reasonableness of administrative fees retained by individual SSOs, we attempted to assess the ratio of administrative revenues to administrative expenses using documents cited above. However, we determined the information was inconsistent and incomplete for such an analysis.

To determine whether student scholarship organizations direct contributions according to the intent of the law, we reviewed O.C.G.A. § 48-7-29.16 and Chapter 20-2A; however, these statutes did not explicitly identify the "intent" of the student scholarship program. As a result, we used statutory requirements outlined in Chapter 20-2A for fund management and scholarship distribution as a proxy for "intent" and identified any statutory requirements related to obligating taxpayer donations for scholarships. These included requirements for SSOs related to fund management, scholarship distribution, and reporting.

Because they are conducted by a CPA and are required to verify compliance with requirements of O.C.G.A. § 20-2A-2, we determined that compliance audits contained the most reliable information on SSO compliance with statutory requirements related to scholarships. To evaluate SSO compliance with statutory scholarship requirements, we reviewed SSO compliance audits (covering SSO fiscal years ending in 2018) to determine how many audits verified compliance with requirements of O.C.G.A. § 20-2A-2 related to scholarships. We also noted how many audits verified SSOs compliance with requirements on scholarship practices outlined in O.C.G.A. §§ 20-2A-1, 20-2A-3 and 48-7-29.16.

To determine whether measures can be taken to improve transparency and accountability to improve the integrity of future donations, we reviewed O.C.G.A. Chapter 20-2A to determine agency responsibilities related to evaluating SSO compliance required by statute that could be improved to more closely align with statutory requirements. Specifically, we reviewed DOR and GaDOE processes for collecting SSO documents, reviewing documents for statutory compliance, and actions taken to address SSO noncompliance. We compared actions the agencies took to review and address SSO noncompliance to requirements identified in statute, including unspecified steps that may be required to meet the explicit requirements.

In addition, we reviewed O.C.G.A. § 48-7-29.16 and Chapter 20-2A to determine what transparency and accountability measures are required by state law. We then compared these requirements to laws in four other states (Alabama, Florida, Indiana, and Louisiana) identified by the American Federation for Children as having the most robust transparency and accountability measures that, if adopted in Georgia, would strengthen transparency and accountability within the SSP. Legal requirements we compared included requirements related to SSO reporting and operations, as well as reporting requirements related to schools and participating students.

O.C.G.A. § 20-2A-3 requires SSOs to annually report to the Department of Revenue, the following: the total number and dollar value of individual and corporate contributions and tax credits approved; the total number and dollar value of scholarships awarded to eligible students; a count of scholarships awarded by adjusted gross income category; and the average scholarship dollar amount by adjusted gross income category. This information is publicly available and was used for support sections of this report, including the background and Appendices D-F.

We conducted this special examination in accordance with generally accepted government auditing standards (GAGAS) for performance audits. 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.

Appendix C: GaDOE Active SSO List (as of October 2020)

SSO Name	Website	City
AAA Scholarship Foundation, Inc.	www.aaascholarships.org	Atlanta
A Pay It Forward Scholarship, Inc.	www.PayitForwardScholarships.com	Gainesville
Alyn Scholarship Fund, Inc	www.AlynFund.org	Douglas
ALEF Fund, Inc.	www.aleffund.org	Atlanta
Apogee Georgia School Choice Scholarship Fund	www.apogee123.org	Atlanta
Arete Scholars Fund, Inc	www.aretescholars.org	Dacula
Basic Enhancements, INC	www.becdi.org	Covington
Christian International Counseling & Ministries, Inc.	www.CICMSSO.org	Suwanee
Georgia Goal Scholarship Program, Inc.	www.goalscholarship.org	Peachtree Corners
Georgia Kids FIRST Scholarship Program, Inc.	www.gakidsfirst.org	Atlanta
Georgia Student Scholarship Organization, Inc.	www.GeorgiaSSO.us	Cumming
Georgia Tax Credit Scholarship Program, Inc.	www.GeorgiaTaxCreditScholarship.org	Atlanta
Georgia Tuition Aid Providers, Inc	www.georgiatap.org	Cumming
Golden Dome Scholarship Fund, Inc.	www.goldendomefund.org	Valdosta
GRACE Scholars, Inc.	www.gracescholars.org	Smyrna
GREAT SSO, Inc.	www.greatsso.org	Cumming
KIPP Metro Atlanta Opportunity Fund	www.kippmetroatlanta.org	Atlanta
LDC Foundation INC	www.ldc-inc.org	Stone Mountain
Learning to Serve	www.learningtoserve.org	Alpharetta
Northwest Georgia Scholars Program, Inc.	www.nwgscholars.org	Cartersville
PACE Scholarship Organization Corp.	www.pacescholarship.com	Covington
Peach State Christian Scholarship Fund, Inc.	www.pscsfund.org	Byron
Southeast Community Church, INC	www.seca-bbms.com	Kingsland
Student Scholarship Organization for Greek Americans	www.ssoforga.org	Atlanta
The Georgia Tuition Assistance Program, Inc.	www.gatap.org	Atlanta
Vision SSO, Inc	www.visionsso.org	Suwanee
Westfield Pines Schools, LLC	www.wpswarriors.org	Leesburg

Source: GaDOE website

Appendix D: 2017-2019 Donations by Individuals and Corporations

(Calendar Year Qualified Education Expense Credit Reports

Note: This table is based on reports statutorily required to be published on DOR's website.

Individual and Corporate Donations 2017-2019	2017				2018				2019				Total Donations			Total Dollar Amount		
SSO Name	Individual		Corporate		Individual		Corporate		Individual		Corporate		Individual	Corporate	Overall	Individual	Corporate	Overall
Ga Goal Scholarship Program	10,245	$ 14,879,391	90	$ 2,089,526	10,568	$ 17,649,442	95	$ 2,474,128	11,654	$ 32,827,019	102	$ 3,606,191	32,467	287	32,754	$ 65,355,852	$ 8,169,845	$ 73,525,697
Apogee Georgia School Choice Scholarship Fund	4,837	$ 6,970,010	45	$ 668,132	4,170	$ 7,012,969	42	$ 769,622	4,108	$ 12,244,744	47	$ 1,258,076	13,115	134	13,249	$ 26,227,723	$ 2,695,830	$ 28,923,553
Georgia Student Scholarship Organization	2,007	$ 3,316,328	10	$ 313,550	1,955	$ 3,910,361	15	$ 658,093	2,387	$ 6,992,561	18	$ 340,350	6,349	43	6,392	$ 14,219,250	$ 1,311,993	$ 15,531,243
Arete Scholars Fund	36	$ 101,611	16	$ 5,016,686	97	$ 212,727	12	$ 3,932,651	75	$ 258,466	10	$ 3,897,500	208	38	246	$ 572,804	$ 12,846,837	$ 13,419,641
Alef Fund	1763	$ 3,035,760	3	$ 52,325	1,763	$ 3,488,861	3	$ 233,742	1798	$ 5,951,394	2	$ 180,000	5,324	8	5,332	$ 12,476,015	$ 466,067	$ 12,942,082
Georgia Tax Credit Scholarship Program	1	$ 1,237	2	$ 8,662,433	3	$ 17,874	1	$ 1,099,897	4	$ 8,500	2	$ 1,325,000	8	5	13	$ 27,611	$ 11,087,330	$ 11,114,941
G.R.A.C.E. Scholars	2106	$ 2,672,910	11	$ 77,897	2,060	$ 2,978,160	5	$ 48,467	1955	$ 5,101,242	4	$ 129,250	6,121	20	6,141	$ 10,752,312	$ 255,614	$ 11,007,926
Golden Dome Scholarship Fund	144	$ 224,743	3	$ 529,598	151	$ 302,874	3	$ 1,534,418	174	$ 592,979	6	$ 861,500	469	12	481	$ 1,120,596	$ 2,925,516	$ 4,046,112
AAA Scholarship Foundation	1	$ 1,237	6	$ 914,912	0	$ -	4	$ 913,035	0	$ -	7	$ 1,233,500	1	17	18	$ 1,237	$ 3,061,447	$ 3,062,684
A Pay It Forward Scholarship	450	$ 723,494	0	$ -	378	$ 710,820	0	$ -	315	$ 891,125	0	$ -	1,143	0	1,143	$ 2,325,439	$ -	$ 2,325,439
Faith First Georgia	495	$ 890,428	6	$ 19,799	475	$ 1,044,617	5	$ 33,900	0	$ -	0	$ -	970	11	981	$ 1,935,045	$ 53,699	$ 1,988,744
Christian Int. Counseling & Ministries	240	$ 392,578	0	$ -	241	$ 516,621	0	$ -	257	$ 759,067	0	$ -	738	0	738	$ 1,668,266	$ -	$ 1,668,266
Learning to Serve	44	$ 124,392	3	$ 455,110	45	$ 130,536	3	$ 465,281	64	$ 316,300	2	$ 95,000	153	8	161	$ 571,228	$ 1,015,391	$ 1,586,619
Georgia Bright Futures Foundation	109	$ 114,164	1	$ 515	101	$ 141,068	1	$ 573	220	$ 665,604	7	$ 390,120	430	9	439	$ 920,836	$ 391,208	$ 1,312,044
Vision SSO	186	$ 322,602	1	$ 2,500	173	$ 325,858	0	$ -	187	$ 564,815	2	$ 11,000	546	3	549	$ 1,213,275	$ 13,500	$ 1,226,775
Georgia Tuition Aid Providers	197	$ 285,228	0	$ -	199	$ 311,270	0	$ -	138	$ 358,657	0	$ -	534	0	534	$ 955,155	$ -	$ 955,155
Alyn Scholarship Fund	107	$ 116,090	2	$ 6,731	105	$ 119,746	4	$ 41,579	178	$ 487,917	4	$ 61,000	390	10	400	$ 723,753	$ 109,310	$ 833,063
Great SSO	64	$ 137,449	0	$ -	80	$ 174,680	1	$ 9,900	84	$ 246,300	3	$ 132,965	228	4	232	$ 558,429	$ 142,865	$ 701,294
The Georgia Tuition Assistance Program	75	$ 80,587	2	$ 8,291	65	$ 96,423	1	$ 5,500	70	$ 148,800	2	$ 20,000	210	5	215	$ 325,810	$ 33,791	$ 359,601
SSO America	53	$ 73,067	1	$ 12,000	49	$ 79,965	1	$ 12,000	57	$ 144,785	1	$ 12,000	159	3	162	$ 297,817	$ 36,000	$ 333,817
Student Scholarship Organization for Greek Americans	24	$ 64,636	1	$ 1,237	22	$ 71,497	1	$ 1,650	21	$ 106,000	0	$ -	67	2	69	$ 242,133	$ 2,887	$ 245,020
Peach State Christian Scholarship Fund	16	$ 40,616	0	$ -	13	$ 34,549	0	$ -	9	$ 45,100	0	$ -	38	0	38	$ 120,265	$ -	$ 120,265
Northwest Georgia Scholars Program	2	$ 2,474	2	$ 9,898	0	$ -	3	$ 16,500	0	$ -	2	$ 20,000	2	7	9	$ 2,474	$ 46,398	$ 48,872
Pace Scholarship Organization Corp	3	$ 6,682	0	$ -	4	$ 8,475	1	$ 825	7	$ 26,600	1	$ 1,000	14	2	16	$ 41,757	$ 1,825	$ 43,582
Kipp Metro Atlanta Opportunity	1	$ 1,237	0	$ -	2	$ 1,375	0	$ -	0	$ -	0	$ -	3	0	3	$ 2,612	$ -	$ 2,612
Ideate Education Empowerment	0	$ -	0	$ -	0	$ -	0	$ -	0	$ -	0	$ -	-	0	0	$ -	$ -	$ -
America's Scholarship Konnection	0	$ -	0	$ -	0	$ -	0	$ -	0	$ -	0	$ -	-	0	0	$ -	$ -	$ -
Total	23,206	$ 34,578,951	205	$ 18,841,140	22,719	$ 39,340,768	201	$ 12,251,761	23,762	$ 68,737,975	222	$ 13,574,452	69,687	628	70,315	$ 142,657,694	$ 44,667,353	$ 187,325,047

Appendix E: Average Scholarship Amount and Scholarship Recipients by Household Income Brackets

(Calendar Year Qualified Education Expense Credit Reports-2017-2019)

Note: This table is based on reports statutorily required to be published on DOR's website.

	2017-2018						2019							
	Scholarships by Quartile[1]				Total[2]	Average	Count				Average by FPL[3]			
Name	1st	2nd	3rd	4th	Total	Average	>125%	125-250%	250-400%	>400%	>125%	125-250%	250-400%	>400%
Ga Goal Scholarship Program, Inc.	2,132	3,565	3,353	379	9,429	$3,798	3506	1961	340	48	$5,112	$4,454	$4,493	$5,616
Georgia Tax Credit Scholarship Program, Inc.	12	231	473	725	1,441	$9,608	3	239	567	208	$3,402	$10,312	$10,298	$10,340
Apogee Georgia School Choice Scholarship Fund	261	427	974	1,458	3,120	$4,347	339	467	381	970	$5,178	$4,594	$4,859	$5,341
Georgia Student Scholarship Organization	153	218	403	1,301	2,384	$3,387	339	451	363	505	$3,242	$3,329	$4,559	$3,167
Arete Scholars Fund, Inc.	181	758	819	203	1,961	$3,841	413	428	50	0	$3,977	$4,000	$2,448	$2,500
G.R.A.C.E. Scholars, Inc.	209	504	675	527	2,209	$2,812	417	423	241	88	$3,495	$3,369	$2,817	$2,233
Alef Fund, Inc.	11	35	140	633	1,145	$5,330	105	113	180	426	$7,759	$7,919	$6,946	$6,174
AAA Scholarship Foundation, Inc.	20	79	74	-	267	$7,303	81	78	0	0	$7,500	$6,875	$0	$0
Golden Dome Scholarship Fund, Inc.	82	190	278	391	941	$1,427	135	310	159	112	$2,135	$1,800	$1,042	$602
A Pay It Forward Scholarship	440	225	407	812	1,884	$642	78	153	350	164	$1,147	$1,096	$1,065	$1,109
Faith First Georgia	31	18	71	94	406	$2,967	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Learning to Serve	126	161	214	80	581	$1,977	75	189	34	20	$1,598	$1,100	$1,000	$1,000
Christian Int. Counseling & Ministries Inc	41	33	1	1	133	$6,245	13	51	11	7	$8,769	$8,600	$8,446	$8,462
Vision SSO	4	7	10	210	231	$2,528	4	7	7	131	$3,700	$2,318	$2,840	$3,666
Georgia Tuition Aid Providers	-	1	9	105	115	$4,562	0	2	3	43	$0	$1,921	$6,879	$6,283
Alyn Scholarship Fund	25	29	90	181	325	$1,184	54	69	68	85	$1,812	$1,558	$1,120	$597
Georgia Bright Futures Foundation, Inc	2	41	13	6	62	$3,748	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Great SSO	25	27	23	36	111	$2,054	11	14	16	44	$5,341	$3,882	$3,650	$2,863
The Georgia Tuition Assistance Program	45	26	25	6	102	$1,992	20	30	7	1	$3,740	$3,250	$2,500	$1,000
SSO America	84	4	-	-	172	$928	11	19	28	40	$1,295	$1,246	$1,403	$1,828
Student Scholarship Organization for Greek Americans	-	-	2	21	23	$6,142	0	0	1	11	$0	$0	$6,374	$6,374
Peach State Christian Scholarship Fund, Inc.	-	3	12	25	40	$1,951	0	5	8	5	$0	$1,970	$2,844	$1,860
Northwest Georgia Scholars Program, Inc.	2	2	4	2	15	$2,894	2	2	0	0	$2,187	$2,187	$0	$0
Kipp Metro Atlanta Opportunity	-	1	7	-	8	$2,630	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pace Scholarship Organization Corp	4	7	12	5	37	$510	12	6	1	0	$645	$397	$50	$0
America's Scholarship Konnection	-	-	-	-	-	$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ideate Education Empowerment, Inc.	-	-	-	-	-	$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[1] Total number of families of scholarship recipients who fall within each quartile of Georgia adjusted gross income, may include multiple children within the same family.

[2] Indicates total individual scholarships

[3] Total Number of scholarship recipients whose family's adjusted gross income falls within specified ranges percentages of Federal Poverty Line

Appendix F: Total Scholarships by Student Scholarship Organization Calendar Years 2017-2019

SSO Name	Average	No.	Amount
GA GOAL SCHOLARSHIP PROGRAM, INC.	$4,205	15,284	$64,268,930
APOGEE GEORGIA SCHOOL CHOICE SCHOLARSHIP FUND	$4,642	5,277	$24,496,833
GEORGIA TAX CREDIT SCHOLARSHIP PROGRAM, INC.	$9,890	2,458	$24,310,558
GEORGIA STUDENT SCHOLARSHIP ORGANIZATION, INC.	$3,446	4,042	$13,929,227
ALEF FUND, INC.	$5,938	1,969	$11,692,668
ARETE SCHOLARS FUND, INC.	$3,860	2,852	$11,008,300
G.R.A.C.E. SCHOLARS, INC.	$2,951	3,378	$9,969,574
AAA SCHOLARSHIP FOUNDATION, INC.	$7,262	426	$3,093,750
GOLDEN DOME SCHOLARSHIP FUND, INC.	$1,462	1,657	$2,422,128
A PAY IT FORWARD SCHOLARSHIP	$769	2,629	$2,021,748
CHRISTIAN INT. COUNSELING & MINISTRIES INC	$7,141	215	$1,535,343
LEARNING TO SERVE	$1,703	899	$1,530,550
FAITH FIRST GEORGIA, INC.	$2,967	406	$1,204,479
VISION SSO INC	$2,934	380	$1,115,061
GEORGIA TUITION AID PROVIDERS, INC.	$5,026	163	$819,228
ALYN SCHOLARSHIP FUND	$1,192	601	$716,462
GREAT SSO, INC.	$2,681	196	$525,475
THE GEORGIA TUITION ASSISTANCE PROGRAM, INC.	$2,464	160	$394,234
SSO AMERICA	$1,148	270	$310,006
GEORGIA BRIGHT FUTURES FOUNDATION, INC.	$3,748	62	$232,354
STUDENT SCHOLARSHIP ORGANIZATION FOR GREEK AMERICA	$6,222	35	$217,758
PEACH STATE CHRISTIAN SCHOLARSHIP FUND, INC.	$2,068	58	$119,921
NORTHWEST GEORGIA SCHOLARS PROGRAM INC.	$2,745	19	$52,161
PACE SCHOLARSHIP ORGANIZATION CORP.	$519	56	$29,040
KIPP METRO ATLANTA OPPORTUNITY FUND	$2,630	8	$21,041
AMERICA'S SCHOLARSHIP KONNECTION, INC	-	-	$0
IDEATE EDUCATION EMPOWERMENT, INC.	-	-	$0

Note: This table is based on reports statutorily required to be published on DOR’s website.

Source: 2017-2019 Calendar Year Qualified Education Expense Credit Reports

Appendix G: Tax Credit Disbursement

		2017	2018	2019	Total
Preapprovals					
Annual tax credit cap		$58 million	$58 million	$100 million	-----
Amount of tax credits requested		$117 million	$105 million	$100 million	$322 million
Amount of tax credits preapproved		$58 million	$58 million	$100 million	$216 million
	Individual	$37.8 million	$44.8 million	$83.5 million	$166.1 million
	Corporate	$20.2 million	$13.2 million	$16.5 million	$49.9 million
Proration % of preapproved credits		49%	55%	100%	-----
Date tax credit was met		3-Jan	2-Jan	4-Dec	-----
Donations					
Donated funds[1]		$52.8 million	$51.4 million	$82.7 million	$186.9 million
	Individual	$34.0 million	$39.1 million	$68.9 million	$142 million
	Corporate	$18.8 million	$12.3 million	$13.9 million	$45.0 million
# of certificates		25,465	25,770	28,225	79,460
	Individual	25,220	25,540	27,974	78,734
	Corporate	245	230	251	726
# of donors		22,649	22,649	23,646	68,944
	Individual	22,466	22,470	23,447	68,383
	Corporate	183	179	199	561
Average donation		$2,331	$2,270	$3,499	$2,712
	Individual	$1,513	$1,742	$2,936	$2,076
	Corporate	$102,724	$68,606	$69,778	$80,151
% of preapproved credit donated		91.0%	88.6%	82.7%	86.5%
	Individual	90.0%	87.4%	82.5%	85.5%
	Corporate	92.8%	92.8%	84.0%	89.9%
% of donations					
	Individual	64.5%	76.1%	83.2%	76.0%
	Corporate	35.5%	23.9%	16.8%	24.0%
Claims					
Credits Claimed[1]		$33.9 million	$33.0 million	$28.3 million	$95.2 million
	Individual	$27.1 million	$27.0 million	$27.7 million	$81.9 million
	Corporate	$6.8 million	$6.0 million	$0.6 million	$13.4 million
% of credit claimed		64.2%	64.2%	34.2%	50.9%
	Individual	79.7%	69.0%	40.3%	57.6%
	Corporate	36.2%	48.8%	4.2%	29.8%

[1] Totals may not sum exactly due to rounding.
[2] This is the sum of donors each year and may include duplicates if they contributed in more than one year.

Source: DOR Integrated Tax Solutions

Appendix H: Disbursement Breakdown by Federal Poverty Level Bracket 2017 and 2018

2017 FPL	# of Taxpayers	Approved Amount	Donations	Claims
<125%	1,272	$ 1,538,351	$ 1,187,884	$ 514,556
125-250%	1,161	$ 1,111,484	$ 735,866	$ 387,616
250-400%	1,940	$ 1,915,487	$ 1,542,319	$ 1,167,028
>400%	17,677	$ 29,051,381	$ 27,093,013	$ 22,815,112
Grand Total	**22,050**	**$ 33,616,703**	**$ 30,559,082**	**$ 24,884,312**
	% Taxpayers	**% Approved Amount**	**% Donation**	**% Claims**
<125%	5.8%	4.6%	3.9%	2.1%
125-250%	5.3%	3.3%	2.4%	1.6%
250-400%	8.8%	5.7%	5.0%	4.7%
>400%	80.2%	86.4%	88.7%	91.7%
2018 FPL[i]	**# of Taxpayers**	**Approved Amount**	**Donations**	**Claims**
<125%	1,300	$ 1,859,840	$ 1,311,828	$ 390,789
125-250%	1,114	$ 1,164,093	$ 778,664	$ 321,969
250-400%	1,836	$ 2,139,575	$ 1,611,678	$ 1,104,192
>400%	17,383	$ 32,948,031	$ 29,933,263	$ 22,804,258
Grand Total	**21,633**	**$ 38,111,539**	**$ 33,635,433**	**$ 24,621,208**
	% Taxpayers	**% Amount**	**% Donation**	**% Claims**
<125%	6.0%	4.9%	3.9%	1.6%
125-250%	5.1%	3.1%	2.3%	1.3%
250-400%	8.5%	5.6%	4.8%	4.5%
>400%	80.4%	86.5%	89.0%	92.6%

Source: DOR Integrated Tax Solutions

Appendix I: Maximum Permitted Fees of Other States' Tax Credit Programs

	Administrative Fee (Maximum Allowable %)
Georgia	4% to 8%
Florida	3%
Alabama	5%
Illinois	5%
Louisiana	5%
Nevada	5%
Arizona	10%
Indiana	10%
Iowa	10%
Kansas	10%
Montana	10%
New Hampshire	10%
Oklahoma	10%
Rhode Island	10%
South Dakota	10%
Virginia	10%
Pennsylvania	20%

Source: Source: O.C.G.A.§ 20-2A-2 and Other State Laws

The Performance Audit Division was established in 1971 to conduct in-depth reviews of state-funded programs. Our reviews determine if programs are meeting goals and objectives; measure program results and effectiveness; identify alternate methods to meet goals; evaluate efficiency of resource allocation; assess compliance with laws and regulations; and provide credible management information to decision makers. For more information, contact us at (404)656-2180 or visit our website at www.audits.ga.gov.