

**SUMMARY OF  
SIGNIFICANT FINDINGS AND  
FINANCIAL TRENDS IDENTIFIED IN  
DISTRICT SCHOOL BOARD  
AUDIT REPORTS FOR THE  
FISCAL YEAR ENDED JUNE 30, 2017**

Pursuant to Section 11.45(7)(f), Florida Statutes



Sherrill F. Norman, CPA  
Auditor General

This project was coordinated by Stellar Lee, CPA.

Please address inquiries regarding this report to Micah E. Rodgers, CPA, Audit Manager, by e-mail at [micahrodgers@aud.state.fl.us](mailto:micahrodgers@aud.state.fl.us) or by telephone at (850) 412-2905.

This report and other reports prepared by the Auditor General are available at:

[FLAuditor.gov](http://FLAuditor.gov)

Printed copies of our reports may be requested by contacting us at:

**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

# SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN DISTRICT SCHOOL BOARD AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

## **SUMMARY**

---

This report provides a summary of significant findings and financial trends identified in the audits of the 67 district school boards. For the 2016-17 fiscal year, our Office performed financial audits of 47 school districts and other independent certified public accountants (CPAs) performed financial audits of 20 school districts. The 20 financial audit reports prepared by the other independent CPAs were required to be filed with our Office no later than March 31, 2018. In addition to the financial audits, we performed operational audits of 24 school districts.

### **Significant Findings**

The audit reports for 40 of the 67 school districts included findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. Audit reports for 2 school districts included findings considered to be material weaknesses, which represents a decrease compared to the audit reports for 3 school districts that included material weaknesses for the 2015-16 fiscal year. One of the 2 audit reports also cited an instance of material noncompliance.

### **Financial Trends**

At June 30, 2017, the average financial condition ratio<sup>1</sup> for school districts Statewide was 9.48 percent, which is a slight increase over the average financial condition ratio at June 30, 2016. Of the 67 school districts, 2 had financial condition ratios that were below 3 percent at June 30, 2017. The low financial condition ratio means these 2 school districts had fewer resources available for emergencies and unforeseen situations than the other school districts.

## **BACKGROUND**

---

State law<sup>2</sup> provides for financial audits of district school boards to be performed annually by the Auditor General or by other independent CPAs. The scope of these audits includes an examination of the financial statements, the issuance of a report on compliance and internal control in accordance with generally accepted government auditing standards, and the issuance of a report on compliance and internal control for each major Federal program in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

---

<sup>1</sup> The financial condition measure used in this report is the ratio of the general fund total assigned and unassigned fund balance to the general fund total revenues.

<sup>2</sup> Sections 11.45 and 218.39, Florida Statutes.

In addition, State law<sup>3</sup> requires the Auditor General to conduct operational audits of district school boards at least every 3 years. The operational audits are to be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and must include:

- An evaluation of management’s performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- An examination of internal controls designed and placed in operation to promote and encourage the achievement of management’s control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.

In addition, State law<sup>4</sup> also requires that we annually compile a summary of significant findings and financial trends identified in school district audit reports.

## **SIGNIFICANT FINDINGS**

---

### **Classification of Audit Findings**

Auditing standards require auditors to report material weaknesses in internal control and significant control deficiencies that are disclosed during the course of a financial statement audit. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements would not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Auditors must also report material noncompliance or abuse that has a material effect on a financial statement audit. The classification of an audit finding is dependent upon its potential impact on the specific school district under audit. Therefore, the classification of an audit finding could vary from school district to school district.

For the 2016-17 fiscal year, the financial audit reports for 27 school districts contained no findings, while financial and operational audit reports for the remaining 40 school districts included a total of 212 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the 2015-16 fiscal year, the audit reports for 42 school districts included a total of 252 findings. The decrease in the number of findings can be attributed, in part, to enhanced school district controls over virtual instruction and financial reporting procedures. For purposes of this report, audit findings are generally classified in one of three categories:

---

<sup>3</sup> Section 11.45(2)(f), Florida Statutes.

<sup>4</sup> Section 11.45(7)(f), Florida Statutes.

- Material weaknesses and instances of material noncompliance. Noncompliance with applicable laws or rules is considered material when it is determined that the noncompliance could have a direct and material effect on the determination of financial statement amounts.
- Significant deficiencies and instances of noncompliance with applicable laws or rules, or additional matters, such as operational audit report findings, that should be addressed by management.
- Instances of major Federal program noncompliance, internal control deficiencies, and questioned costs.

### **Financial Statement Material Weakness and Material Noncompliance Findings**

Pursuant to State law,<sup>5</sup> a school district cited with a material weakness or an instance of material noncompliance in a financial audit is ineligible for recognition as an academically high-performing school district. Academically high-performing school districts are granted more flexibility than other school districts in meeting the specific requirements of the Florida Statutes and State Board of Education (SBE) rules.

The audit reports for the 2016-17 fiscal year for two school districts (Hamilton and Gadsden) included findings that were considered to be material weaknesses.<sup>6</sup> While no school district audit report contained an abuse finding, the material weakness cited for Hamilton County School District was also considered to be an instance of material noncompliance. Specifically:

- Hamilton County School District was cited for deficient controls over and material noncompliance associated with the budgetary and financial reporting processes. Because of the deficient controls and material noncompliance, the District general fund total assigned and unassigned fund balance declined \$912,852, or 136 percent, from \$672,874 to a deficit of \$239,978 at June 30, 2017. The District's financial condition ratio was negative 1.77 percent at June 30, 2017, and as a result, the District had fewer resources for emergencies and unforeseen situations. Pursuant to State law,<sup>7</sup> the Superintendent of the District notified the School Board and the Florida Department of Education (FDOE) of the financial condition and submitted a fiscal recovery plan. In May 2017, the Commissioner of Education approved the District fiscal recovery plan.
- Gadsden County School District needed to improve controls over monitoring financial activities of charter schools. In addition, one of the two charter schools sponsored by the District terminated and did not provide a required financial audit report to the District for consideration in the District's financial statement audit. As a result, the District financial statement audit report included a disclaimer of opinion on the aggregate discretely presented component units.

### **Financial Statement Significant Deficiency and Additional Matter Findings**

The following is a summary of the findings included in the 40 school district audit reports for the 2016-17 fiscal year that addressed control deficiencies; instances of noncompliance with applicable laws, rules, and regulations; or additional matters.

<sup>5</sup> Section 1003.621(1)(a)3., Florida Statutes.

<sup>6</sup> For the 2015-16 fiscal year, three audit reports included material weaknesses and one of the three material weaknesses was also considered to be a material noncompliance.

<sup>7</sup> Section 2011.051, Florida Statutes.

**Financial Condition.** In addition to the previously discussed material weakness and material noncompliance noted for Hamilton County School District, the audit report for Jefferson County School District also cited a finding addressing financial condition and the budgetary process. In August 2016, the Commissioner of Education declared the Jefferson County School District to be in a state of financial emergency and approved a financial emergency board to provide support and financial oversight to the District. Notwithstanding the District's fiscal recovery plan and a positive fund balance, the District's controls over the budgetary process continued to be deficient and contributed to the low District general fund total assigned and unassigned fund balance of \$36,587 at June 30, 2017, or 0.48 percent of the total general fund revenues for the 2016-17 fiscal year. As a result, the Jefferson County School District's financial condition ratio remained below 3 percent at June 30, 2017, which indicates District resources may not be sufficient to address normal contingencies.

**Information Technology.** For 27 school districts, various information technology (IT) control deficiencies were noted. Specifically:

- **Access Controls.** Audit reports for 24 school districts addressed various IT access control deficiencies. For example, at 19 school districts, inappropriate or unnecessary access privileges to social security numbers existed or procedures for the periodic review of IT access privileges were not in place. Additionally, 2 of these 24 school districts did not timely deactivate former employee IT access privileges. Effective access controls help protect data and IT resources from unauthorized modification, loss, or disclosure.
- **Disaster Plans.** Five school districts (including 3 cited for access control deficiencies and 2 other school districts) had not developed written, comprehensive IT disaster recovery plans or needed improvements in existing disaster preparedness or recovery plans. A disaster recovery plan should identify key recovery personnel and critical applications, provide for critical data backups, and include step-by-step procedures for recovery to help minimize data and asset loss in the event of a major hardware or software failure.
- **User Authentication.** The need for improvements in security controls related to user authentication for IT applications were noted for 5 school districts (including 4 cited for access control deficiencies and 1 other school district). Adequate security controls related to user authentication help ensure the confidentiality, integrity, and availability of district data and IT resources.
- **Data Loss Prevention.** Four school districts (including 3 cited for access control deficiencies and 1 other school district) needed improvements in security controls over data loss prevention. Effective data loss prevention helps ensure protection from unauthorized disclosure through the establishment of procedures to identify and classify confidential or sensitive data, locate the storage and pathways, and monitor the use and transmission of confidential or sensitive data.
- **Logging/Monitoring.** Audit reports for 3 school districts (also cited for access control deficiencies) noted inadequate security control procedures over logging or monitoring of data and IT resources. Without adequate security controls related to monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.
- **Risk Assessment.** Audit reports noted that 3 school districts (including 2 cited for access control and user authentication control deficiencies and 1 other school district) had not developed written, comprehensive IT risk assessments. IT risk assessments, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, help support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

- **Security Incident Response Plans.** Two school districts cited for disaster plan control deficiencies also lacked written security incident response plans or needed enhancements in existing plans. Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to computer security incidents. These plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations; include a centralized reporting structure; provide for designated staff to be trained in incident response; and require notification of the affected parties.

**Financial Record Keeping and Records Management.** Audit reports for 11 school districts cited certain record keeping and financial records management deficiencies. For 9 of these school districts, procedures needed improvements to ensure the accuracy and completeness of the financial statements. While most of these findings related to required audit adjustments for the accuracy of the financial statements, 2 findings addressed the lack of an actuarial valuation to support a reported postemployment benefits liability and another finding cited needed improvements in procedures to properly report charter schools as discretely presented component units in the districts' financial statements. Two of the 9 school districts and another school district needed enhancements in controls over school committee meeting minutes procedures to ensure compliance with State law.<sup>8</sup> In addition, the audit report for 1 school district cited deficiencies in accountability over transportation inventory such as inadequate separation of duties.

**Cash Controls.** Audit reports for four school districts included findings addressed the need for enhancements in controls over cash. Two school districts needed to improve bank reconciliation procedures and two other school districts needed to enhance cash collection procedures at prekindergarten or child care programs.

**Capital Assets Management.** Audit reports for four school districts addressed deficiencies in accountability for long-term assets including land, improvements other than buildings, construction in progress, buildings and fixed equipment, and tangible personal property. For example, two of these four school districts did not timely perform a physical inventory of the school district capital assets. In addition, one school district needed to improve procedures for reconciling physical inventory counts to the subsidiary and accounting records.

**Payroll and Personnel.** Audit report findings for 20 school districts addressed the need to improve controls over payroll and personnel. Specifically:

- **Background Screenings and Searches.** For 10 school districts, procedures for performing background screenings of school district employees, contracted vendors, or charter school employees and board members with direct student contact were not adequate. Additionally, 1 of the 10 school districts and 3 other school districts did not properly conduct background searches for prospective school volunteers as required by State law.<sup>9</sup>
- **Florida Best and Brightest Teacher (FBBT) Scholarship Program.** For 9 school districts (including 7 cited for background screenings and searches control deficiencies and 2 other school districts), controls over the award of FBFT scholarships were deficient. Because of these deficiencies, awards were not always based on statutory eligibility requirements,<sup>10</sup> resulting in questioned costs ranging from \$6,817 to \$198,070 for 5 of these school districts.

---

<sup>8</sup> Section 286.011, Florida Statutes (commonly referred to as the Sunshine Law).

<sup>9</sup> Section 943.04351, Florida Statutes.

<sup>10</sup> Section 1012.731, Florida Statutes.

- **Payroll Processing**. For 7 school districts (including 3 cited for background screenings and searches and FBBT scholarships control deficiencies and 4 other school districts), procedural enhancements were needed to, for example, sufficiently and appropriately evidence employee time worked and leave taken and to document supervisory review and approval of time worked.
- **Performance Evaluation and Salary Schedule**. The school boards for 2 school districts (also cited for background screening and searches control deficiencies) had not adopted salary schedules that provided annual salary adjustments for instructional personnel and school administrators based on employee and student performance as required by State law.<sup>11</sup> Additionally, 1 of the 2 school districts did not conduct school administrative personnel performance evaluations required by State law.<sup>12</sup> Another school district (also cited for background screening deficiencies) did not always conduct performance evaluations in accordance with the State law.<sup>13</sup>
- **Teacher Certificates**. Procedures had not been established by 3 school districts (also cited for background screening control deficiencies) to verify that teacher applicants had required certificates before being hired to teach.
- **Differentiated Pay**. The school board for 1 school district had not established a documented process to identify certain school district personnel entitled to differentiated pay using the factors prescribed in State law.<sup>14</sup>

**Expenditures and Purchasing**. For ten school districts, contract monitoring procedures needed enhancement to ensure that contractual arrangements are evidenced by written contracts and properly approved, the contracts clearly describe the nature and timing of deliverables, the satisfactory receipt of services is documented prior to payments, and payments are consistent with contract terms and conditions. For four of these ten and four other school districts, improvements were needed for purchasing card controls, such as controls for monitoring purchasing limits, reviewing and approving charges prior to payments, and timely canceling employee purchasing card accounts upon a cardholder's separation from district employment.

**Capital Construction and Related Expenditures**. Audit report findings for 12 school districts addressed the need to improve controls over construction project-related procurement and monitoring and construction and capital outlay expenditures. Specifically:

- **Construction Monitoring**. For 7 school districts, improvements were needed in controls over construction management entity (CME) guaranteed maximum price and subcontractor contract monitoring. For example, the findings and recommendations addressed needed enhancements in controls over general conditions costs and other CME payment components and the selection of subcontractors and documented verification of subcontractor licenses.
- **Acquiring Professional Services**. Three school districts (including 2 cited for construction monitoring deficiencies and another school district) lacked appropriate procedures for ensuring compliance with State law<sup>15</sup> by competitively selecting architect or construction contractors.
- **Restricted Capital Outlay Resources**. Audit reports for 6 school districts (including 2 cited for construction monitoring deficiencies and 4 other school districts) noted control deficiencies related to restricted capital outlay resources. Specifically, records at 4 school districts did not evidence

<sup>11</sup> Section 1012.22(1)(c)5., Florida Statutes.

<sup>12</sup> Section 1012.34, Florida Statutes.

<sup>13</sup> Section 1012.34, Florida Statutes.

<sup>14</sup> Section 1012.22(1)(c)4.b., Florida Statutes.

<sup>15</sup> Section 287.055, Florida Statutes.

that the school districts used proceeds from ad valorem tax levies for purposes consistent with applicable statutory provisions. Contrary to State law,<sup>16</sup> the school districts expended ad valorem tax levy proceeds ranging from \$9,000 to \$3.9 million for unallowable purposes, such as lobbying services, cleaning, groundskeeping, or salaries and benefits for custodial or landscaping personnel. Additionally, 1 school district did not properly allocate and disburse additional property tax levy collections to the five district-sponsored charter schools in accordance with State law,<sup>17</sup> resulting in \$2.6 million questioned costs. For 2 school districts (including 1 cited for control deficiencies related to the ad valorem tax proceeds), impact fee proceeds totaling \$10.3 million and \$13.6 million, respectively, were not used for authorized purposes.

**Adult General Education Classes.** General Appropriations Act proviso language<sup>18</sup> required each school district to report enrollment for adult general education programs identified in State law<sup>19</sup> in accordance with FDOE instructional hours reporting procedures.<sup>20</sup> The audit reports for nine school districts included findings related to school district misreporting of adult general education program enrollment data. Since future funding is based, in part, on enrollment data reported to the FDOE, it is important that such data be reported correctly.

**Virtual Instruction Programs.** Audit reports for six school districts addressed deficiencies in the administration and oversight of the school district virtual instruction program (VIP) and noncompliance with provisions of State law.<sup>21</sup> Two of these six school districts needed to enhance controls to ensure that the required number of VIP options is offered. Two other school districts needed to develop and maintain comprehensive, written VIP policies and procedures, and one of the school districts did not timely notify parents regarding the open enrollment period of the school district's VIP contrary to State law.<sup>22</sup> One school district did not have adequate procedures to ensure that required background screenings for VIP provider employees were performed. Another school district did not include certain provisions necessary to enhance the district's VIP provider contract.

**Insurance.** For six school districts, audit report findings addressed the need to improve controls over insurance programs. Four of these school districts did not use competitive bidding procedures required by State law<sup>23</sup> when procuring health, life, or other insurances. Another school district needed to improve controls over the monitoring of the financial condition of the self-funded employee health insurance plan and procedural improvements were needed for verifying eligibility of employee dependents covered by the health insurance plans. Another school district lacked procedures to effectively monitor a service agent for the district's group health self-insurance claim payments, such as periodic reviews of insurance claims paid by the service agent and reviews of the annual service auditor's report on the service agent's controls.

---

<sup>16</sup> Section 1011.71, Florida Statutes.

<sup>17</sup> Section 1002.33(17), Florida Statutes.

<sup>18</sup> Chapter 2016-66, Laws of Florida, Specific Appropriations 10 and 122.

<sup>19</sup> Section 1004.02(3), Florida Statutes.

<sup>20</sup> FDOE-issued Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

<sup>21</sup> Section 1002.45, Florida Statutes.

<sup>22</sup> Section 1002.45(1)(b), Florida Statutes.

<sup>23</sup> Section 112.08(2)(a), Florida Statutes.

**Facility Inspection.** Audit reports for three school districts addressed noncompliance with educational facility safety standards. Contrary to State law,<sup>24</sup> two of these school districts did not perform required annual inspections of the districts' educational facilities or relocatables, and the other school district did not always timely correct deficiencies noted in annual facility and relocatable inspection reports.

**Charter Schools.** In addition to the previously discussed material weakness noted for the Gadsden County School District, the audit reports for two school districts addressed control deficiencies over the monitoring of charter schools. For one school district, the finding addressed the need for enhanced procedures related to terminated charter schools pursuant to State law,<sup>25</sup> including procedures to ensure the monitoring of charter schools' financial activities upon notification of a charter school closure, or the completion of audit reports upon closure. The other school district needed to develop procedures for monitoring the financial condition of charter schools and for providing assistance or guidance to charter schools to prevent the schools from experiencing financial declines.

**Various Other Matters.** In addition to the audit findings described above, findings addressing various other matters were included in school district audit reports. These matters included, for example, the needed improvements in accountability over school internal funds, procedural enhancements needed to ensure compliance with workforce development funds spending restrictions prescribed by State law,<sup>26</sup> and the need to improve controls over the internal auditing function, such as developing annual audit work plan based on risk assessments and performing internal audit and monitoring function in compliance with a school board policy or board-approved audit committee charter.

### **Federal Awards Program Findings**

The audit reports for nine school districts included a total of 17 Federal awards program findings (including 15 findings addressing major Federal awards program noncompliance and control deficiencies and 2 findings addressing nonmajor Federal awards program control deficiencies with questioned costs greater than \$25,000). These findings addressed the Federal compliance requirements of Allowable Costs and Cost Principles; Special Tests and Provisions; Reporting; Cash Management; and Matching, Level of Effort, Earmarking and related to Child Nutrition Cluster, Special Education Cluster, Title I, PELL, and other Federal awards programs. For 4 of these findings at two school districts (Glades and St. Johns), major Federal program noncompliance and a material weakness in internal control over compliance were noted, resulting in qualified opinions on those programs. Additionally, we noted that eight school districts had 11 noncompliance findings that were material to applicable compliance requirement types.

For the 2016-17 fiscal year, seven school district audit reports had a total of 10 findings that identified Federal awards program questioned costs ranging from \$3,004 to \$564,899 and totaling \$1.4 million. In comparison, for the 2015-16 fiscal year, seven school district audit reports had a total of 11 findings that identified Federal awards program questioned costs ranging from \$303 to \$408,613 and totaling \$850,336. Questioned costs include costs of goods or services charged to one or more Federal awards

---

<sup>24</sup> Sections 1013.12(2) and 1013.20(2), Florida Statutes.

<sup>25</sup> Section 1002.33(9)(o), Florida Statutes.

<sup>26</sup> Chapter 2016-66, Laws of Florida, Specific Appropriations 122.

programs that are not allowed under the applicable grant terms, not clearly supported by the Federal awards program’s purposes, not documented in the manner prescribed by applicable Federal cost principles or State or school district policies, or not incurred during the grant period. If the applicable grantor disallows questioned costs, a school district may have to repay the costs from non-Federal sources.

## **FINANCIAL TRENDS**

---

Critical interest in understanding and addressing the factors that affect the financial condition of school districts exists. Such interest is evidenced by the provisions of State law as well as numerous inquiries regarding the financial condition of the various school districts. The financial condition of a school district can be assessed by a review of the district’s general fund balances and activities, which account for most of the operating resources and expenditures for K-12 educational programs.

There are several measures that may be used to evaluate the financial condition of governments. One widely used financial condition measure relevant to school districts compares the level of available equity in the operating fund to overall operating resources for that fund for a fiscal year. This measure is a point-in-time indicator of resources available for appropriation to meet the costs of unexpected and nonrecurring events. We used this measure, shown in Table 1, to analyze the financial condition of the school districts.

**Table 1**  
**Financial Condition Measure**

General Fund Total Assigned <u>and Unassigned Fund Balance</u>	=	Financial Condition Ratio (%)
General Fund Total Revenues		

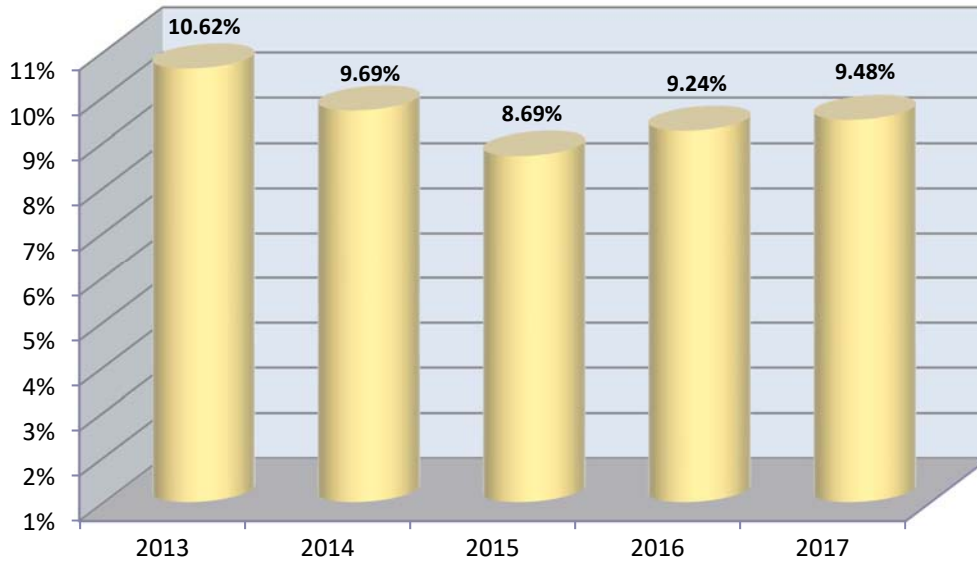
Credit rating agencies generally look more favorably on financial condition ratios of at least 5 percent. Other literature suggests percentages ranging from 5 to 10 percent. However, often the guidance is not clear as to whether the percentage is derived from the total fund balance or the assigned and unassigned fund balance.

We also considered revenue stream characteristics and expenditure practices for school districts. In view of the revenue and expenditure considerations of school districts, the school districts’ established financial management practices, and FDOE oversight, a lower total assigned and unassigned fund balance threshold may be reasonable with acceptable risks.

## Financial Condition Trends

Chart 1 shows the average financial condition ratios of the 67 school districts for the fiscal years ended June 30, 2013, through June 30, 2017. As shown in Chart 1, the average financial condition ratio was 9.48 percent at June 30, 2017, which is a slight increase over the fiscal year average financial condition ratios at June 30, 2015, and June 30, 2016.

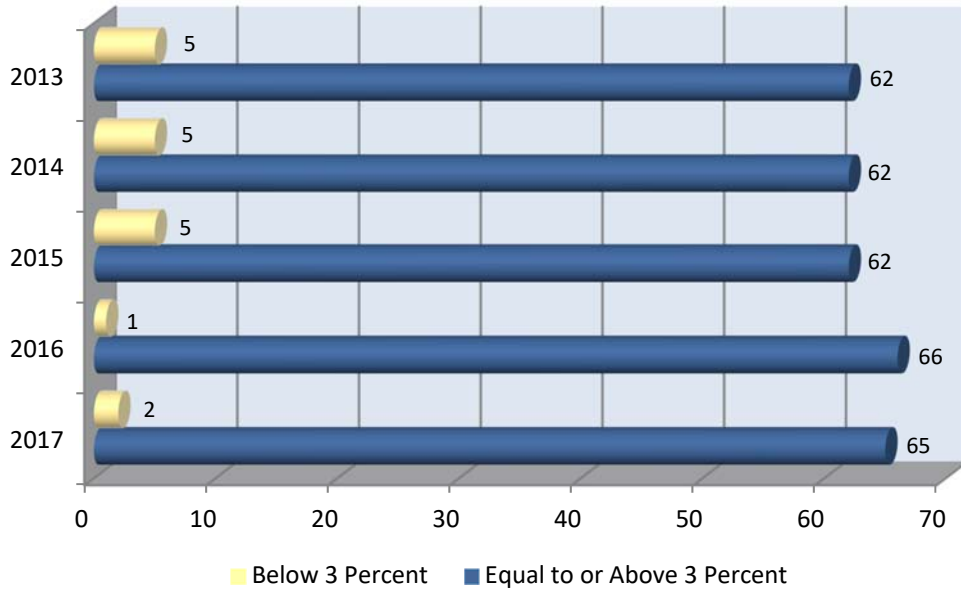
**Chart 1**  
**Average Financial Condition Ratios of School Districts**  
**For the Fiscal Years Ended June 30, 2013, Through June 30, 2017**



State law<sup>27</sup> requires each school district to maintain a general fund ending fund balance that is sufficient to address normal contingencies. If at any time the financial condition ratio determined from the school district's approved operating budget is projected to fall below 3 percent during the current fiscal year, school district superintendent must provide written notification to the Commissioner of Education and respective school board. Chart 2 shows, for the fiscal years ended June 30, 2013, through June 30, 2017, the number of school districts with financial condition ratios below 3 percent and the number of school districts with financial condition ratios equal to or above 3 percent.

<sup>27</sup> Section 1011.051, Florida Statutes.

**Chart 2**  
**Number of School Districts with Financial Condition Ratios**  
**Below 3 Percent and**  
**Number of School Districts with Financial Condition Ratios**  
**Equal to or Above 3 Percent**  
**For the Fiscal Years Ended June 30, 2013, Through June 30, 2017**



As indicated in Chart 2, the number of school districts with financial condition ratios below 3 percent at fiscal year-end ranged from one to five school districts over the past 5 fiscal years. These school districts have significantly fewer resources available for emergencies and unforeseen situations than other school districts. Historically, a school district that experiences a weak financial condition implements measures that generally restore the financial condition to a favorable position within 1 to 2 fiscal years.

Table 2 identifies the two school districts with financial condition ratios below 3 percent at June 30, 2017, and the number of consecutive years that the districts' ratios had been below 3 percent at fiscal year-end.

**Table 2**  
**School Districts with Financial Condition**  
**Ratios Below 3 Percent**

<b>Number</b>	<b>School District</b>	<b>Financial Condition Ratios Fiscal Year Ended June 30, 2017</b>	<b>Number of Consecutive Years Ratio Below 3 Percent</b>
1	Hamilton	-1.77%	-
2	Jefferson	0.48%	3

If at any time a school district's financial condition ratio, determined from the school district's approved operating budget, is projected to fall below 2 percent, State law<sup>28</sup> requires the superintendent to provide written notification to the district school board and the Commissioner of Education. If the Commissioner

<sup>28</sup> Section 1011.051(2), Florida Statutes.

determines that the district does not have a reasonable plan to avoid a financial emergency, the Commissioner will appoint a financial emergency board to implement measures to assist the school board in resolving the financial emergency. Pursuant to State law,<sup>29</sup> a school district is considered to be in a state of financial emergency if the Commissioner of Education determines that the school board needs State assistance to resolve or prevent a financial emergency condition. As noted in Table 2, both the Hamilton County School District and the Jefferson County School District had financial condition ratios below 2 percent at June 30, 2017.

### **Factors Impacting Financial Condition**

Further analyses of school district financial trend data identified other factors that impact the financial condition of school districts and may increase the risk of a weak financial condition. While no single factor is identified as a guaranteed predictor of financial condition, factors such as property values, increasing or declining enrollment, and the size of schools necessitate effective financial management to limit the factors' impact on the school districts' financial condition.

**Property Values.** Property taxes, which are assessed on property values, are the primary source of local revenues for school districts. According to the Florida Department of Revenue, Statewide property taxable values increased from \$1.41 trillion in the 2013 calendar year to \$1.9 trillion in the 2017 calendar year, or an increase of 35 percent. Due to this increase, which was partially offset by decreases in levied millage rates, Statewide property tax levies for school district operations increased from \$10.76 billion for the 2012-13 fiscal year to \$12.65 billion for the 2016-17 fiscal year, or an increase of 18 percent.

**Increasing Enrollment.** Over the past 5 years, Statewide student enrollment increased 4 percent, from 2,656,450 for the 2012-13 fiscal year to 2,766,064 for the 2016-17 fiscal year. A total of 53 school districts experienced enrollment growth during this 5-year period, including 14 school districts with enrollment growth of more than 5 percent and 1,000 unweighted full-time equivalent students (FTE), as shown in Table 3. Although these 14 school districts experienced an increase in FTE-based revenue due to increased enrollment, revenue increases can lag behind school district expenditures when staffing new schools and paying initial start-up costs. Additionally, there is a risk that rapidly growing school districts may overestimate FTE when making FTE projections. FTE overestimates are not only costly when FTE-based revenues are adjusted (reduced), school districts may also have made costly hiring and other expenditure decisions based on the FTE projections.

---

<sup>29</sup> Section 218.503(3), Florida Statutes.

**Table 3**  
**School Districts with Enrollment Growth of**  
**More than 5 Percent and 1,000 Unweighted FTE Students**  
**2012-13 Fiscal Year to the 2016-17 Fiscal Year**

Number	School District	Unweighted FTE			Percent Increase
		2012-13	2016-17	Increase	
1	St. Johns	32,351	38,034	5,683	17.57%
2	Walton	7,678	8,917	1,239	16.14%
3	Osceola	55,881	62,561	6,680	11.95%
4	Orange	182,438	198,984	16,546	9.07%
5	Pasco	66,230	71,554	5,324	8.04%
6	Lee	84,576	91,152	6,576	7.78%
7	Manatee	45,150	48,284	3,134	6.94%
8	Santa Rosa	25,283	26,943	1,660	6.57%
9	Palm Beach	177,797	189,320	11,523	6.48%
10	Hillsborough	199,085	210,932	11,847	5.95%
11	Collier	43,400	45,925	2,525	5.82%
12	Polk	95,634	101,051	5,417	5.66%
13	Bay	25,988	27,355	1,367	5.26%
14	Clay	35,172	36,987	1,815	5.16%

**Declining Enrollment.** While student enrollment increased in total for school districts from the 2012-13 fiscal year to the 2016-17 fiscal year, 14 school districts experienced enrollment declines during this period. The enrollment declines for the 14 school districts ranged from 18 to 1,707 unweighted FTE.

Variations in student enrollment and the related impact on funding from year to year can make school district planning and budgeting decisions for staffing and other activities more challenging. In particular, smaller school districts may experience financial difficulties with gradual enrollment declines as the number of instructional staff will remain constant if no one grade or class within an individual school is affected enough to justify staff reduction.

**Size of Schools.** The size of schools varies significantly between school districts. Most school districts have varying combinations of large, medium, and small schools. Logically, larger schools have a lower cost per student than smaller schools because salary, benefits, and fixed costs are spread over a larger number of students. Accordingly, the size of schools is a relevant factor that impacts a school district's financial condition.

### **Future Financial Trends Considerations**

**State Funding.** For the 2016-17 fiscal year, the base Florida Education Finance Program (FEFP) allocation was \$4,160.71 per weighted FTE student, which represents an increase of \$6.26 from the base FEFP allocation of \$4,154.45 per weighted FTE student for the 2015-16 fiscal year. Also, based on the 2017-18 fiscal year FEFP fourth calculation, the base FEFP allocation for the 2017-18 fiscal year increased by \$43.24 per weighted FTE from the 2016-17 fiscal year final allocation to \$4,203.95. The

weighted FTE student enrollment in school districts increased by 22,601, or approximately 1 percent, from the 2015-16 to the 2016-17 school year. Similarly, in the 2017-18 school year, the weighted FTE student enrollment increased by 36,295, or approximately 1 percent, based on the 2017-18 FEFP fourth calculation. Effective financial monitoring and timely and appropriate adjustments to school district operations are critical to ensure that operating costs remain within available financial resources.

**Debt and Other Long-Term Financing.** School districts may finance capital outlay projects by issuing long-term debt such as general obligation bonds and school district revenue bonds and by entering into long-term lease finance arrangements generally referred to as certificates of participation (COPs). The long-term debt and other financing obligations reported as outstanding as of June 30, 2017, consisted primarily of:

- COPs totaling \$10.6 billion.
- General obligation bonds totaling \$1.1 billion.
- School district revenue bonds totaling \$989 million.
- Qualified School Construction Bonds (QSCBs) totaling \$930 million.
- Qualified Zone Academy Bonds (QZABs) totaling \$271 million.
- State Board of Education bonds totaling \$158 million.
- Build America Bonds (BABs) totaling \$97 million.
- Long-term debt notes totaling \$85 million.

Generally, school districts extinguish their debt through various pledged resources such as capital outlay millage, discretionary sales surtax, pari-mutuel distributions, and other tax proceeds. As of June 30, 2017, pledged resources were generally sufficient to cover the required debt service by school districts.

The seven school districts that had variable interest rate COPs at June 30, 2017, had entered into a total of 15 interest rate swap agreements to reduce overall borrowing costs. The objective of an interest rate swap agreement, a type of hedging derivative, is to achieve lower borrowing costs by synthetically fixing interest rates on the debt as compared to issuing regular fixed-rate debt. Debt service payments fluctuate, depending on changes in the underlying interest rates linked to the interest rate swap agreements, and accounting standards require that hedging derivatives be disclosed at fair value as of the financial reporting date.

The fair value of an interest rate swap agreement is the estimated amount the school district would have received or paid if the swap agreement was terminated. As of June 30, 2017, total fair values of the interest rate swap agreements for each of the seven school districts ranged from negative \$62 million to negative \$13 million. However, the interest rate swap agreements are associated with COPs with remaining terms ranging from 1 to 15 years, and the actual benefit or additional costs of the swap agreements generally will not be known until the COPs have been paid off. Depending on the fair value of the swap agreements upon termination, there is a risk that the debt service costs of these school districts may exceed the costs that could have been experienced from regular fixed-rate debt. As of June 30, 2017, each of these seven school districts had sufficient available resources to meet their respective debt service requirements.

## School District Trends

**Funding Trends.** School district governmental funds include the general fund, special revenue funds, debt service funds, and capital projects funds. School districts frequently have fiduciary funds (agency and trust funds) and proprietary funds (primarily internal service funds that account for such activities as self-insurance programs); however, substantially all school district resources are accounted for in the governmental funds. As shown in Table 4, school districts reported revenues of \$29 billion in the governmental funds for the 2016-17 fiscal year, an increase of \$1 billion (3.26 percent) from the 2015-16 fiscal year.

**Table 4**  
**School District Revenues – All Governmental Funds**  
**For the 2015-16 and 2016-17 Fiscal Years**

Governmental Fund Type	2015-16		2016-17		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	\$21,010,531,801	74.82%	\$21,485,107,746	74.10%	\$474,575,945	2.26%
Other Funds	7,070,400,369	25.18%	7,511,175,665	25.90%	440,775,296	6.23%
<b>Totals</b>	<b><u>\$28,080,932,170</u></b>	<b><u>100.00%</u></b>	<b><u>\$28,996,283,411</u></b>	<b><u>100.00%</u></b>	<b><u>\$915,351,241</u></b>	<b><u>3.26%</u></b>

Table 5 shows, by source, the total governmental fund type revenues reported by school districts for the 2015-16 and 2016-17 fiscal years, and the related increases in these revenues.

**Table 5**  
**School District Revenues by Source – All Governmental Funds**  
**For the 2015-16 and 2016-17 Fiscal Years**

Source	2015-16		2016-17		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 3,252,052,899	11.58%	\$ 3,314,625,222	11.43%	\$ 62,572,323	1.92%
State	11,361,391,438	40.46%	11,781,899,386	40.63%	420,507,948	3.70%
Local	13,467,487,833	47.96%	13,899,758,803	47.94%	432,270,970	3.21%
<b>Totals</b>	<b><u>\$28,080,932,170</u></b>	<b><u>100.00%</u></b>	<b><u>\$28,996,283,411</u></b>	<b><u>100.00%</u></b>	<b><u>\$915,351,241</u></b>	<b><u>3.26%</u></b>

The increase in total revenues for the 2016-17 fiscal year consisted of increases in each of the three revenue sources. The revenue increase of \$432 million in local revenues was due primarily to increases in property values, which generated additional revenues from the capital outlay and discretionary local effort millage levies of approximately \$163 million and \$100 million, respectively. Additionally, the local sales tax and impact fee collections increased by \$123 million and \$63 million, respectively, from the 2015-16 fiscal year, which contributed to the total local revenue increase. The increase in State revenues consisted of increases of \$318 million in State FEFP revenues and \$102 million in restricted State revenues.

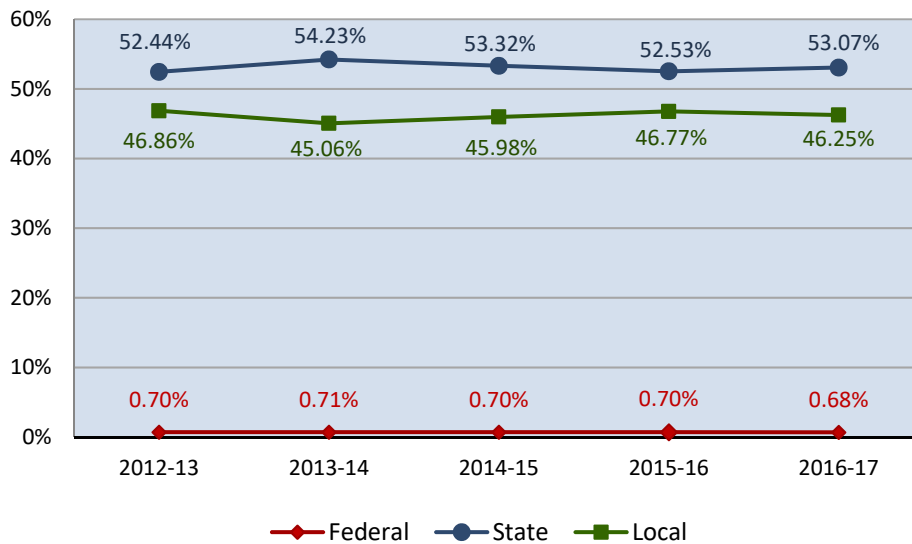
Table 6 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2015-16 and 2016-17 fiscal years, and the related increase in these revenues.

**Table 6**  
**School District General Fund Revenues by Source**  
**For the 2015-16 and 2016-17 Fiscal Years**

Source	2015-16		2016-17		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 147,117,593	0.70%	\$ 146,194,933	0.68%	\$ (922,660)	-0.63%
State	11,037,817,311	52.53%	11,402,390,922	53.07%	364,573,611	3.30%
Local	9,825,596,897	46.77%	9,936,521,891	46.25%	110,924,994	1.13%
<b>Totals</b>	<b>\$21,010,531,801</b>	<b>100.00%</b>	<b>\$21,485,107,746</b>	<b>100.00%</b>	<b>\$474,575,945</b>	<b>2.26%</b>

As shown in Table 6, the State provided most of the school districts' general fund resources and local revenue sources provided slightly less. As discussed later in this section, Federal funds are restricted and most of those funds are reported in special revenue funds. Chart 3 shows the percentage of Statewide general fund revenues from Federal, State, and local sources for the 2012-13 through 2016-17 fiscal years.

**Chart 3**  
**Percentage of School District General Fund Revenues**  
**From Federal, State, and Local Sources**  
**For the 2012-13 Through 2016-17 Fiscal Years**



**FEFP – State and Local Revenues.** Most of the State and local revenues for school district operations are derived from the FEFP, which is designed to provide a base level of educational resources per FTE student for all school districts. FEFP moneys are primarily generated by multiplying the number of FTE students in funded educational programs by various weights and cost factors determined by the Legislature. Each school district receiving State FEFP moneys must levy the required local effort millage in its local property taxes.

State and local FEFP revenues for school district operations totaled \$15.5 billion for the 2016-17 fiscal year, and consisted of \$7.9 billion in State revenues and \$7.6 billion in local revenues. In addition to the \$7.9 billion in State revenues for operations as part of the FEFP, the school districts reported \$3.9 billion in restricted State revenues. These restricted State revenues were for Class Size Reduction, Workforce Development, School Recognition, and other specific programs.

**Other Local Revenues.** In addition to the \$7.6 billion in local revenues for funding operations as part of the FEFP, the school districts reported \$6.3 billion in other local revenues. These local revenues included, but were not limited to, \$2.5 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; \$1.3 billion from discretionary local effort millage levies for operations; \$332 million from special voter levies; and \$62 million from debt service millage levies for servicing debt. Because of early payment discounts, property tax revenues were approximately 96 percent of the tax levy. Additional sources of local revenue included sales taxes, impact fees, charges for services, investment income, and other local sources. Twenty-six school districts reported local sales tax revenue totaling \$746 million for the 2016-17 fiscal year compared to the 24 school districts that reported local sales tax revenues totaling \$624 million for the 2015-16 fiscal year. Twenty-eight school districts reported impact fee revenues totaling \$330 million for the 2016-17 fiscal year, while 27 school districts reported impact fee revenues totaling \$267 million for the 2015-16 fiscal year. The impact fees were in place during the 2016-17 fiscal year for 6 school districts, but the fee collections remained suspended.

**Federal Revenues.** Special revenue fund resources consist of moneys restricted by Federal and State grantors to be used for specific program purposes, such as those of the Title I and National School Lunch Act programs. Because these resources are restricted, school districts can use them only for those specific activities that meet the purposes of the granting agency. Such resources are not available for general appropriation for operating activities or for unexpected events or emergencies.

**Debt Issuance Proceeds.** The issuance of long-term debt is a significant source of capital funding for school districts. Debt issuance proceeds (net of refundings) and capital lease proceeds for the 2016-17 fiscal year totaled \$1.2 billion as compared to \$742 million for the 2015-16 fiscal year. The significant increase in debt issuance proceeds over the 2015-16 fiscal year primarily related to the increased financing of construction projects. Within the governmental funds, debt service funds account for resources restricted for items such as the payment of debt and capital projects funds typically account for the acquisition of real property and the construction, renovation, remodeling, and maintenance of school district facilities. These resources are generally not available to finance the operating activities of a school district.

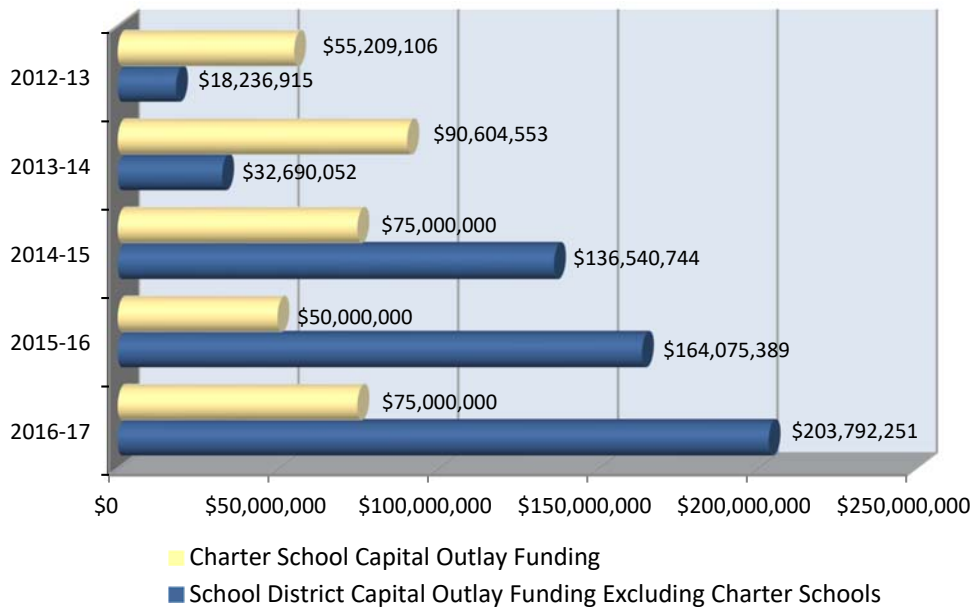
**State Capital Outlay Appropriations.** Historically, certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,<sup>30</sup> constituted significant State funding for school district new construction and facilities maintenance projects. These statutory appropriations included, but were not limited to, PECO, Classrooms First, Classrooms for Kids, and Capital Outlay and Debt Service (CO&DS), which were predominantly funded using proceeds from the

---

<sup>30</sup> Section 1013.65, Florida Statutes.

gross receipts and motor vehicle licensing taxes established by the State Constitution.<sup>31</sup> As shown in Chart 4, State capital outlay appropriations to school districts,<sup>32</sup> excluding funding to charter schools, increased from \$18.2 million for the 2012-13 fiscal year to \$203.8 million for the 2016-17 fiscal year. During that same 5-year period, capital outlay funding for charter schools ranged from a low of \$50 million for the 2015-16 fiscal year to a high of \$90.6 million for the 2013-14 fiscal year.

**Chart 4**  
**State Capital Outlay Appropriations**  
**For the 2012-13 Through 2016-17 Fiscal Years**



The \$39.7 million increase in State capital outlay appropriations to school districts for the 2016-17 fiscal year was composed of increases in PECO funding of \$20 million and CO&DS funding of \$19.7 million.

**Fund Balance Trends.** As shown in Chart 5, the total fund balances of the school district general funds (operating funds) for the fiscal years ended June 30, 2013, through June 30, 2015, steadily declined from \$2.3 billion to \$2.2 billion due, in part, to increases in salary and benefit costs at certain school districts. However, over the past 2 fiscal years, the total general fund balances increased to \$2.6 billion mainly due to increases in revenues in State FEFP and local property tax levied for operational purposes.

<sup>31</sup> Article XII, Sections 9(a)(2) and 9(d) of the State Constitution.

<sup>32</sup> State capital outlay appropriations include PECO, Classrooms First, Classrooms for Kids, and CO&DS (excluding interest earnings on undistributed CO&DS).

**Chart 5**  
**Fund Balances of the General Fund**  
**For the Fiscal Years Ended June 30, 2013, Through June 30, 2017**  
**(in Millions)**



The total assigned and unassigned portions of the general fund balance represent the amount that may be used with the most flexibility for emergencies and unforeseen situations. During the 5-year period shown in Chart 5, the total assigned and unassigned portions of the general fund balance remained relatively constant, ranging from a low of 78.7 percent at June 30, 2017, to a high of 83.2 percent at June 30, 2013.

## ***OTHER MATTERS OF INTEREST***

### **Findings Repeated from Previous Audit Reports**

State law<sup>33</sup> requires the Auditor General to notify the Legislative Auditing Committee of any audit report prepared for a district school board that indicates the district school board failed to take full corrective action in response to a recommendation that was included in the two preceding financial or operational audit reports. Of the 198 findings included in the audit reports issued during the period July 1, 2017, through June 30, 2018, 23 (12 percent) were also included in the two preceding financial or operational audit reports. For the 2015-16 fiscal year, 46 findings (18 percent) had also been included in the two preceding financial or operational audit reports.

On July 13, 2018, pursuant to State law, we notified the Legislative Auditing Committee of the 17 district school boards that failed to take full corrective action in response to one or more recommendations included in the two preceding audit reports. This represents a decrease from the 24 district school boards included in our notification for the 2015-16 year.

<sup>33</sup> Sections 11.45(7)(j) and 218.39(8), Florida Statutes.

## School District Budget Transparency

State law<sup>34</sup> requires each district school board to post on its Web site a plain language version of each proposed, tentative, and official budget describing each budget item in easily understandable terms. The law includes a list of items recommended for inclusion on the Web sites, such as budget hearing information, contracts with teachers' unions and noninstructional staff, and contracts with vendors exceeding \$35,000. This statutory requirement enables taxpayers, parents, and education advocates to readily obtain school district budget and related information in a simply explained and easily understandable manner. Budgetary transparency leads to more responsible spending, more citizen involvement, and improved accountability.

None of the 67 school district reports included budget transparency findings for the 2016-17 fiscal year, compared to the one school district (Washington) that was reported for noncompliance with the budget transparency requirements for the 2015-16 fiscal year.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

The objective of this project was to identify significant findings and financial trends based on our review of school district audit reports.

The scope of this project included a review of the audit reports for the fiscal year ended June 30, 2017, for the 47 school districts audited by the Auditor General and the 20 school districts audited by other independent CPAs.

Our methodology included a review of applicable audit reports and a compilation of significant findings and financial trends. We conducted this review in accordance with applicable generally accepted government auditing standards. We believe that the procedures performed provide a reasonable basis for the summaries of significant findings and financial trends included in this report.

## ***AUTHORITY***

Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of significant findings and financial trends identified in district school board audit reports for the fiscal year ended June 30, 2017.



Sherrill F. Norman, CPA  
Auditor General

<sup>34</sup> Section 1011.035, Florida Statutes.



