

**SUMMARY OF
SIGNIFICANT FINDINGS AND
FINANCIAL TRENDS IDENTIFIED IN
DISTRICT SCHOOL BOARD
AUDIT REPORTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2018**

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



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SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN DISTRICT SCHOOL BOARD AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SUMMARY

This report provides a summary of significant findings and financial trends identified in the audits of the 67 district school boards (school districts) for the fiscal year ended June 30, 2018. Pursuant to State law, for that fiscal year:

- Our Office completed financial audits of 47 school districts and operational audits of 29 school districts.
- Other independent certified public accountants (CPAs) completed financial audits of 20 school districts and filed the reports with our Office.

Significant Findings

The audit reports for 50 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 financial statement material weaknesses, which is the same number of school districts cited with material weaknesses for the 2016-17 fiscal year. In addition, 2 school district audit reports each included a major Federal program noncompliance and material weakness finding, which is the same number of school districts cited with major Federal program noncompliance and material weaknesses for the 2016-17 fiscal year.

Financial Trends

At June 30, 2018, the average financial condition ratio¹ for school districts Statewide was 9.51 percent, which is a slight increase over the average financial condition ratio at June 30, 2018. None of the 67 school districts had financial condition ratios below 3 percent at June 30, 2018, which is an improvement as 2 school districts had financial condition ratios below 3 percent at June 30, 2017.

BACKGROUND

State law² provides for financial audits of district school boards to be conducted annually by the Auditor General or by other independent CPAs who must file their reports with the Auditor General by March 31 (i.e., no later than 9 months after the end of the school district's fiscal year). 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).

¹ 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.

² Sections 11.45 and 218.39, Florida Statutes.

In addition, State law³ 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.

State law⁴ 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 2017-18 fiscal year, the financial audit reports for 17 school districts contained no findings, while financial and operational audit reports for the remaining 50 school districts included a total of 249 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the 2016-17 fiscal year, the audit reports for 40 school districts included a total of 212 findings. The increase in the number of findings can be attributed, in part, to more information technology (IT) access control deficiencies⁵ and instances of noncompliance with Florida Best and Brightest Teacher Scholarship Program and Florida Best and Brightest Principal Scholarship

³ Section 11.45(2)(f), Florida Statutes.

⁴ Section 11.45(7)(f), Florida Statutes.

⁵ For the 2017-18 fiscal year, the audit reports for 35 school districts included 48 IT access control findings. In comparison, for the 2016-17 fiscal year, the audit reports for 24 school districts included 27 IT access control findings.

Program statutory requirements.⁶ For purposes of this report, audit findings are generally classified in one of three categories:

- 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,⁷ 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.

While no school district audit report for the 2017-18 fiscal year contained a material noncompliance finding, the audit reports for two school districts (Leon and Pinellas) included findings considered to be material weaknesses.⁸ Specifically, Leon County School District needed improvements in internal controls to strengthen accountability for capital assets and Pinellas County School District needed procedural enhancements to ensure the accuracy and completeness of financial statements and timely reconciliation of the District's self-insured health fund bank account.

Financial Statement Significant Deficiency and Additional Matter Findings

Findings included in 50 school districts' audit reports for the 2017-18 fiscal year addressed control deficiencies; instances of noncompliance with applicable laws, rules, and regulations; or additional matters. The findings are summarized below.

Information Technology. For 37 school districts, various information technology (IT) control deficiencies were noted. Specifically:

- **Access Controls.** Audit reports for 35 school districts addressed various IT access control deficiencies. For example, at 23 school districts, inappropriate or unnecessary IT access privileges to sensitive personal information of students existed. Additionally, at 17 school districts (including 6 cited for inappropriate or unnecessary IT access privileges to sensitive personal information of students), certain employees had full update access privileges to IT applications or components that allowed them to perform functions incompatible or inconsistent with their

⁶ For the 2017-18 fiscal year, the audit reports for 18 school districts included 21 Florida Best and Brightest Teacher Scholarship Program and Florida Best and Brightest Principal Scholarship Program findings. In comparison, for the 2016-17 fiscal year, the audit reports for 9 school districts included 9 Teacher Scholarship Program findings.

⁷ Section 1003.621(1)(a)3., Florida Statutes.

⁸ For the 2016-17 fiscal year, two audit reports included material weaknesses and one of the two material weaknesses was also considered to be a material noncompliance.

assigned job responsibilities. Effective access controls help protect data and IT resources from unauthorized disclosure, modification, or destruction.

- **User Authentication.** The need for improvements in security controls related to user authentication for IT applications was noted for 7 school districts (including 6 cited for access control deficiencies). Adequate security controls related to user authentication help ensure the confidentiality, integrity, and availability of district data and IT resources.
- **Risk Assessment.** Audit reports noted that 4 school districts (also cited for access control deficiencies) 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.
- **Data Loss Prevention.** Three school districts (also cited for access control deficiencies) 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) included 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.
- **Disaster Plans.** Two school districts (also cited for access control deficiencies) 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.

Financial Record Keeping and Records Management. In addition to the previously discussed material weakness in financial reporting procedures for Pinellas County School District, the audit reports for 12 school districts cited certain record keeping and financial records management deficiencies. For 8 of these 12 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, findings at 2 school districts addressed necessary improvements in the preparation and accuracy of the Schedule of Expenditures of Federal Awards and findings at 2 school districts addressed needed enhancement over the financial reporting process to ensure timely reporting of financial information. In addition, 3 school districts (including 1 also cited for financial reporting) were cited for deficient budgetary controls. These school districts did not always limit expenditures to budgeted amounts, contrary to State law⁹ and State Board of Education (SBE) rules.¹⁰

Cash Controls. In addition to the previously discussed material weakness in the bank account reconciliation procedures noted for Pinellas County School District, the audit reports for five school districts included findings addressing the need for enhancements in controls over cash. Four school

⁹ Section 1011.05, Florida Statutes.

¹⁰ SBE Rule 6A-1.007(2), Florida Administrative Code.

districts needed to improve bank reconciliation procedures and the other school district needed to strengthen controls over the collection of school-age child care fees.

Capital Assets Management. In addition to the previously discussed material weakness in internal controls over capital assets noted for Leon County School District, the audit reports for three school districts addressed deficiencies in accountability for capital assets including improvements other than buildings, construction in progress (CIP), buildings and fixed equipment, and tangible personal property (TPP). Findings and recommendations addressed untimely TPP physical inventories and procedures improvements needed to accurately calculate and report CIP and depreciation expense.

Payroll and Personnel. Audit report findings for 26 school districts addressed the need to improve controls over payroll and personnel. Specifically:

- **Florida Best and Brightest Teacher Scholarship Program and Florida Best and Brightest Principal Scholarship Program.** For 18 school districts, controls over Teacher Scholarship and Principal Scholarship Program awards were deficient. Because of these deficiencies, awards were not always based on statutory eligibility requirements,¹¹ resulting in questioned costs totaling \$326,048, ranging from \$800 to \$89,600, for 15 of these school districts. Additionally, 1 of these 15 school districts and 1 other school district paid the employer payroll taxes on these awards from other resources without Board approval, resulting in questioned costs totaling \$38,059 and \$881,000, respectively. The audit findings at 7 of these 18 school districts also included control deficiencies over Teacher Scholarship Program awards to charter schools. Those school districts did not verify or document the eligibility of charter school teachers before the teachers were awarded the scholarships.
- **Background Screenings and Searches.** For 9 school districts (including 6 cited for Teacher Scholarship Program control deficiencies), procedures for performing background screenings of school district employees or contracted vendors with direct student contact were not adequate. Additionally, 3 of these 9 school districts and 1 other school district did not properly conduct background searches for prospective school volunteers as required by State law.¹²
- **Performance Evaluation and Salary Schedule.** The school boards for 8 school districts (including 6 cited for Teacher Scholarship Program 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.¹³ Additionally, 1 of these 8 school districts did not conduct school administrative personnel performance evaluations required by State law.¹⁴
- **Payroll Processing.** For 5 school districts (including 2 cited for Teacher Scholarship Program control deficiencies), procedural enhancements were needed to, for example, sufficiently and appropriately evidence employee time worked and to document supervisory review and approval of time worked. For 1 of these 4 school districts, the control deficiencies in payroll processing contributed to salary overpayments for the period 2015-16 through 2017-18 fiscal years and, as of June 30, 2018, the total outstanding salary overpayment balance was \$712,968.¹⁵

¹¹ Sections 1012.731 and 1012.732, Florida Statutes (2017).

¹² Section 943.04351, Florida Statutes.

¹³ Section 1012.22(1)(c)4. and 5., Florida Statutes.

¹⁴ Section 1012.34, Florida Statutes.

¹⁵ Total overpayment balance excluded amounts considered uncollectible according to the 2-year statutory limitation in Section 95.11(4)(c), Florida Statutes.

- **Severance Pay.** For 2 school districts (also cited for Teacher Scholarship Program and payroll processing control deficiencies), severance pay provisions in employment agreements were contrary to State law¹⁶ as they allowed for severance pay that exceeds 20 weeks of compensation.
- **Other.** Other payroll and personnel findings addressed, for example, deficiencies for a documented process to identify certain school district personnel entitled to differentiated pay using the factors prescribed in State law¹⁷ and needed improvements in controls over overtime and compensatory time.

Expenditures and Purchasing. For 13 school districts, contract monitoring procedures needed enhancement to ensure that contractual arrangements are evidenced by written contracts and properly approved, 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 4 of these 13 school districts and 1 other school district, improvements were needed for controls over purchasing cards, 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. In addition, records at 3 school districts (including 1 school district cited for contract monitoring control deficiencies) did not demonstrate compliance with SBE rules¹⁸ that require purchases be made at the lowest price consistent with desired quality.

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. For example:

- **Construction Monitoring.** For 5 school districts, improvements were needed in controls over construction management entity (CME) guaranteed maximum price and subcontractor contract monitoring. The findings and recommendations addressed, for instance, needed enhancements in controls over general conditions costs and other CME payment components and the selection of subcontractors and documented verification of subcontractor licenses.
- **Restricted Capital Outlay Resources.** Audit reports for 6 school districts noted control deficiencies related to restricted capital outlay resources. Specifically, records at 3 school districts did not evidence that ad valorem tax levy proceeds were used for purposes consistent with applicable statutory provisions. Contrary to State law,¹⁹ the school districts expended ad valorem tax levy proceeds ranging from \$45,718 to \$260,490 for unallowable purposes, such as school vans, salaries and benefits for custodial personnel, or group health insurance benefits. The other 3 school districts' records did not document that impact fee proceeds were used for authorized purposes.

Insurance. For ten school districts, audit report findings addressed the need to improve controls over insurance programs. Specifically:

- **Monitoring Health Insurance Participant Eligibility.** For seven school districts, procedural improvements were needed for verifying eligibility of dependents covered by the school district health insurance plan. Those school districts did not review documentation necessary to support the eligibility of all dependents enrolled in the insurance plans and had not established procedures

¹⁶ Section 215.425, Florida Statutes.

¹⁷ Section 1012.22(1)(c)4.b., Florida Statutes.

¹⁸ SBE Rule 6A-1.012, Florida Administrative Code.

¹⁹ Section 1011.71, Florida Statutes.

to document periodic verifications to ensure that dependent participants in the plan remain eligible.

- **Acquiring Health Insurance Service.** Three school districts (including one cited for monitoring health insurance participant eligibility) did not use competitive bidding procedures required by State law²⁰ when procuring health, life, or other insurance plans.
- **Self-Insurance Program Financial Condition.** One school district needed to develop a formal plan for monitoring the financial condition and for providing premium contributions sufficient to maintain a favorable net position to meet the fiscal demands of the district's self-insurance program. In addition, contrary to State law,²¹ the school district did not file the actuarial report for the self-insurance plan with the Florida Office of Insurance Regulation.

Adult General Education Classes. General Appropriations Act proviso language²² required each school district to report enrollment for adult general education programs identified in State law²³ in accordance with SBE rules²⁴ and Florida Department of Education (FDOE) instructional hours reporting procedures.²⁵ The audit reports for seven 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.

School Internal Funds. Audit reports for six school districts addressed needed improvements in accountability over school internal funds. Specifically, the school internal funds audits of five of these school districts were not timely issued to be considered in completing the districts' financial statements and related audits. The audit report for one other school district addressed deficiencies over cash controls in the district's school internal funds accounts such as inadequate separation of duties.

Charter Schools. The audit reports for four school districts addressed control deficiencies over the monitoring of charter schools. Three school districts 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. Two of these three school districts and one other district needed enhanced procedures related to terminated charter schools pursuant to State law,²⁶ including procedures to ensure the completion of audit reports upon school closure.

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, noncompliance with educational facility safety standards; expenditures made to school districts' direct support organizations absent statutory authority;²⁷ and improvements needed in accountability over food service operations.

²⁰ Section 112.08(2)(a), Florida Statutes.

²¹ Section 112.08(2)(b), Florida Statutes.

²² Chapter 2017-70, Laws of Florida, Specific Appropriation 122.

²³ Section 1004.02(3), Florida Statutes.

²⁴ SBE Rule 6A-10.0381(5), Florida Administrative Code.

²⁵ FDOE-issued Technical Assistance Paper, dated August 2017, *Adult General Education Instructional Hours Reporting Procedures*.

²⁶ Section 1002.33(9)(o), Florida Statutes.

²⁷ Section 1001.453, Florida Statutes.

Federal Program Findings

The audit reports for eight school districts included a total of 12 Federal awards findings (including 10 findings addressing major Federal program noncompliance and control deficiencies and 2 findings addressing nonmajor Federal 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, and Eligibility and related to the Child Nutrition Cluster, Student Financial Assistance Cluster, and Title I programs. Audit reports for two school districts (Gadsden and St. Johns) each included a major Federal program noncompliance and a material weakness in internal control over compliance finding, resulting in qualified opinions on those programs. Additionally, we noted that five school districts had a total of 8 noncompliance findings that were material to applicable compliance requirement types. Comparatively, for the 2016-17 fiscal year, two school districts were cited with major Federal program noncompliance and material weaknesses in internal control over compliance.

For the 2017-18 fiscal year, five school district audit reports each had a finding that identified Federal program questioned costs. The questioned costs for the five school districts ranged from \$3,601 to \$274,284 and totaled \$571,125. In comparison, for the 2016-17 fiscal year, seven school district audit reports had a total of 10 findings that identified Federal program questioned costs ranging from \$3,004 to \$564,899 and totaling \$1.4 million. Questioned costs include costs of goods or services charged to one or more Federal programs that are not allowed under the applicable grant terms, not clearly supported by the Federal 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 depending on the specific needs and circumstances of each government. For example, the Government Financial Officers Association (GFOA)²⁸ recommends that, at a minimum, the unrestricted fund balance in the general fund be no less than 2 months of general fund operating revenues or general fund operating expenditures and operating transfers out, if applicable.

Another widely used financial condition measure relevant to school districts is based on State law,²⁹ which 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

²⁸ GFOA Best Practice, *Fund Balance Guidelines for the General Fund* (September 2015).

²⁹ Section 1011.051, Florida Statutes.

the costs of expected and 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**

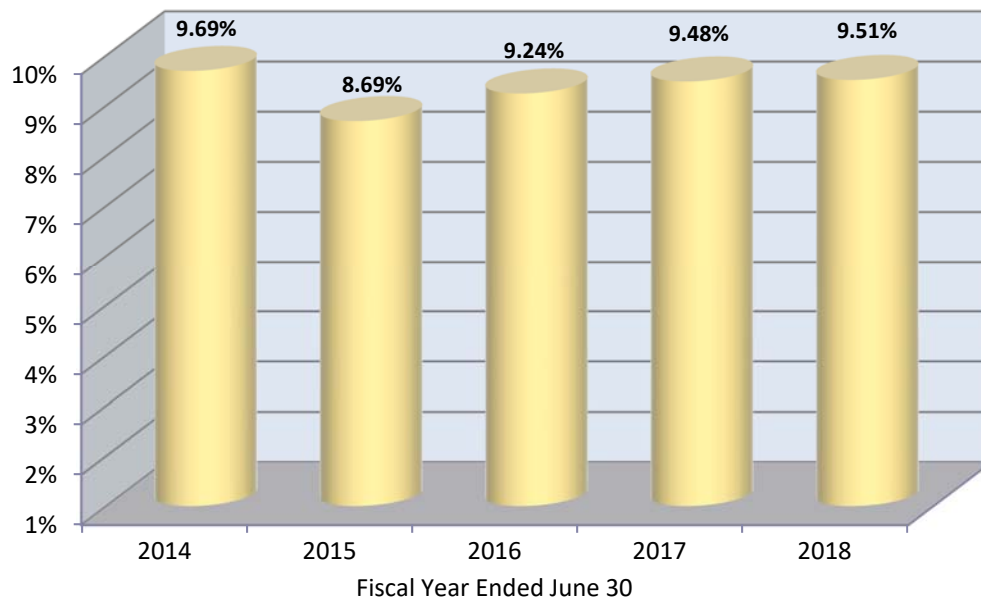
$\frac{\text{General Fund Total Assigned and Unassigned Fund Balance}}{\text{General Fund Total Revenues}} = \text{Financial Condition Ratio (\%)}$

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.

Financial Condition Trends

Chart 1 shows the average financial condition ratios of the 67 school districts for the fiscal years ended June 30, 2014, through June 30, 2018. As shown in Chart 1, the average financial condition ratios have steadily increased over the past 3 fiscal years from 8.69 percent at June 30, 2015, to 9.51 percent at June 30, 2018.

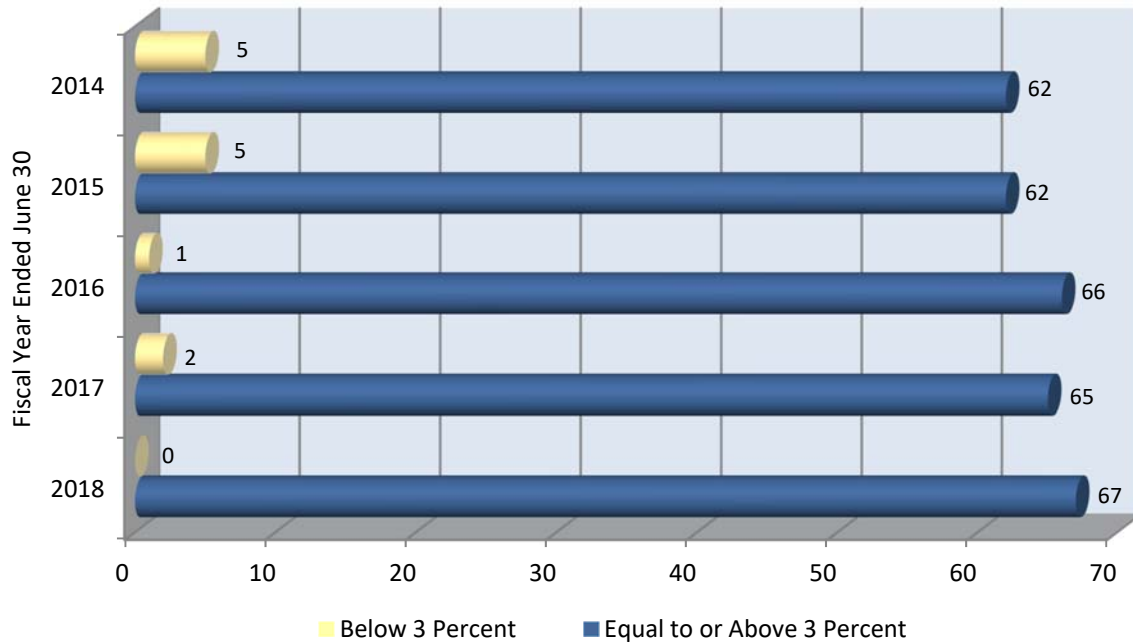
**Chart 1
Average Financial Condition Ratios of School Districts
For the Fiscal Years Ended June 30, 2014, Through June 30, 2018**



State law 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 districts' approved operating budget is projected to fall below 3 percent during the current fiscal year, school district superintendents must provide written notification to the Commissioner of Education and

respective school board. Chart 2 shows, for the fiscal years ended June 30, 2014, through June 30, 2018, 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.

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, 2014, Through June 30, 2018



As indicated in Chart 2, none of the 67 school districts had financial condition ratios below 3 percent at June 30, 2018. Over the previous 4 years, the number of school districts with financial condition ratios below 3 percent at fiscal year end ranged from one to five school districts. These school districts had 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.

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 law³⁰ requires the superintendent to provide written notification to the district school board and the Commissioner of Education. If the Commissioner 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,³¹ 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.

³⁰ Section 1011.051(2), Florida Statutes.

³¹ Section 218.503(3), Florida Statutes.

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 taxable 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 Taxable Values. Property taxes, which are assessed on property taxable values, are the primary source of local revenue for school districts. According to the Florida Department of Revenue, Statewide property taxable values increased from \$1.51 trillion in the 2014 calendar year to \$2.03 trillion in the 2018 calendar year, or an increase of 34 percent. Due to this increase, which was partially offset by decreases in levied millage rates, Statewide property tax levies for school district operations increased by 16 percent, from \$11.3 billion for the 2013-14 fiscal year to \$13.14 billion for the 2017-18 fiscal year.

Increasing Enrollment. Over the past 5 years, Statewide student enrollment increased 4 percent, from 2,670,479 for the 2013-14 fiscal year to 2,782,121 for the 2017-18 fiscal year. A total of 53 school districts experienced enrollment growth during this 5-year period, including 15 school districts with enrollment growth of more than 5 percent and 1,000 unweighted full-time equivalent students (FTE), as shown in Table 2. Although these 15 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.

Table 2
School Districts with Enrollment Growth of
More than 5 Percent and 1,000 Unweighted FTE Students
2013-14 Fiscal Year Through the 2017-18 Fiscal Year

School District	Unweighted FTE			Percent Increase
	2013-14	2017-18	Increase	
1 St. Johns	33,272	39,585	6,313	18.97%
2 Walton	7,845	9,254	1,409	17.96%
3 Osceola	57,239	66,010	8,771	15.32%
4 Orange	185,594	203,950	18,356	9.89%
5 Pasco	66,904	73,063	6,159	9.21%
6 Santa Rosa	25,402	27,446	2,044	8.05%
7 Polk	96,144	102,863	6,719	6.99%
8 Lee	86,159	91,868	5,709	6.63%
9 Alachua	27,276	29,042	1,766	6.47%
10 Hillsborough	200,719	213,628	12,909	6.43%
11 Clay	35,070	37,295	2,225	6.34%
12 Collier	43,818	46,305	2,487	5.68%
13 Manatee	45,890	48,454	2,564	5.59%
14 Palm Beach	180,172	189,899	9,727	5.40%
15 Seminole	64,019	67,281	3,262	5.10%

Declining Enrollment. While student enrollment increased in total for school districts from the 2013-14 fiscal year through the 2017-18 fiscal year, 17 school districts experienced enrollment declines ranging from 15 to 2,334 unweighted FTE during this period. Of these 17 school districts, only 2 (Pinellas and Miami-Dade) declined by 1,000 or more unweighted FTE.³²

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.

³² From the 2013-14 fiscal year through the 2017-18 fiscal year, the unweighted FTE at Pinellas County School District declined by 2,334 students (2.3 percent), from 102,251 to 99,917 students, and the unweighted FTE at Miami-Dade County School District declined by 1,113 students (0.3 percent), from 350,796 to 349,683.

Future Financial Trends Considerations

State Funding. For the 2017-18 fiscal year, the base Florida Education Finance Program (FEFP) allocation was \$4,203.95 per weighted FTE student, which represents an increase of \$43.24 from the base FEFP allocation of \$4,160.71 per weighted FTE student for the 2016-17 fiscal year. Also, based on the 2018-19 fiscal year FEFP final calculation, the base FEFP allocation for the 2018-19 fiscal year increased by \$0.47 per weighted FTE to \$4,204.42. The weighted FTE student enrollment in school districts increased by 34,390, or approximately 1 percent, from the 2016-17 to the 2017-18 school year. Similarly, in the 2018-19 school year, the weighted FTE student enrollment increased by 12,232, or 0.4 percent, based on the 2018-19 FEFP final 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, 2018, consisted primarily of:

- COPs totaling \$10 billion (39 school districts).
- General obligation bonds totaling \$1 billion (2 school districts).
- School district revenue bonds totaling \$925 million (28 school districts).
- Qualified School Construction Bonds (QSCBs) totaling \$907.7 million (19 school districts).
- Qualified Zone Academy Bonds (QZABs) totaling \$287 million (22 school districts).
- State Board of Education bonds totaling \$109.1 million (59 school districts).
- Build America Bonds (BABs) totaling \$32.6 million (2 school district).
- Long-term debt notes totaling \$80.6 million (13 school districts).

Generally, school districts extinguish their debt through various pledged resources such as capital outlay millage, discretionary sales surtax, and other tax proceeds. As of June 30, 2018, pledged resources were generally sufficient to cover the required debt service by school districts.

Of the 39 school districts with COPs at June 30, 2018, 5 school districts had variable interest rate COPs and had entered into a total of 10 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, 2018, total fair values of the interest rate swap agreements for each of the five school districts ranged from negative \$28.5 million to negative \$9.1 million, an increase over the fair value range at June 30, 2017, which were from negative

\$62 million to negative \$13 million. Notwithstanding, the June 30, 2018, agreements are associated with COPs with remaining terms ranging from 4 to 14 years and the actual benefit or additional costs of the swap agreements generally will not be known until the debt is extinguished. 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, 2018, each of these five 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 3, school districts reported revenues of \$30 billion in the governmental funds for the 2017-18 fiscal year, an increase of \$1.1 billion (3.68 percent) from the 2016-17 fiscal year.

Table 3
School District Revenues – All Governmental Funds
For the 2016-17 and 2017-18 Fiscal Years

Governmental Fund Type	2016-17		2017-18		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	\$21,485,107,746	74.10%	\$22,100,177,863	73.51%	\$615,070,117	2.86%
Other Funds	7,511,175,665	25.90%	7,964,410,736	26.49%	453,235,071	6.03%
Totals	\$28,996,283,411	100.00%	\$30,064,588,599	100.00%	\$1,068,305,188	3.68%

Table 4 shows, by source, the total governmental fund type revenues reported by school districts for the 2016-17 and 2017-18 fiscal years, and the related increases by revenue source.

Table 4
School District Revenues by Source – All Governmental Funds
For the 2016-17 and 2017-18 Fiscal Years

Source	2016-17		2017-18		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 3,314,625,222	11.43%	\$ 3,459,098,620	11.50%	\$ 144,473,398	4.36%
State	11,781,899,386	40.63%	12,184,384,610	40.53%	402,485,224	3.42%
Local	13,899,758,803	47.94%	14,421,105,369	47.97%	521,346,566	3.75%
Totals	\$28,996,283,411	100.00%	\$30,064,588,599	100.00%	\$1,068,305,188	3.68%

The 3.68 percent increase in total revenues for the 2017-18 fiscal year consisted of increases in each of the three revenue sources. The largest revenue increase of \$521 million was in local revenues, which

was due, in part, to increases in property taxable values, resulting in additional revenues from the capital outlay and discretionary local effort millage levies of approximately \$191 million and \$95 million, respectively. Additionally, the local sales tax and impact fee collections increased by \$139 million and \$23 million, respectively, from the 2016-17 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 \$84 million in restricted State revenues.

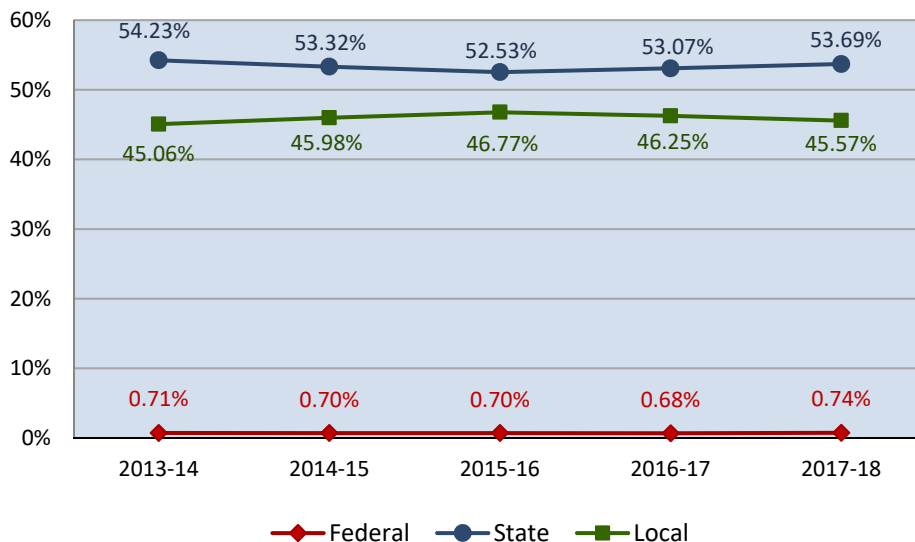
Table 5 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2016-17 and 2017-18 fiscal years, and the related increase in these revenues.

Table 5
School District General Fund Revenues by Source
For the 2016-17 and 2017-18 Fiscal Years

Source	2016-17		2017-18		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 146,194,933	0.68%	\$ 163,793,884	0.74%	\$ 17,598,951	12.04%
State	11,402,390,922	53.07%	11,865,776,797	53.69%	463,385,875	4.06%
Local	9,936,521,891	46.25%	10,070,607,182	45.57%	134,085,291	1.35%
Totals	<u>\$21,485,107,746</u>	<u>100.00%</u>	<u>\$22,100,177,863</u>	<u>100.00%</u>	<u>\$615,070,117</u>	<u>2.86%</u>

As shown in Table 5, 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 2013-14 through 2017-18 fiscal years.

Chart 3
Percentage of School District General Fund Revenues
From Federal, State, and Local Sources
For the 2013-14 Through 2017-18 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 \$15.8 billion for the 2017-18 fiscal year, and consisted of \$8.2 billion in State revenues and \$7.6 billion in local revenues. In addition to the \$8.2 billion in State revenues for operations as part of the FEFP, the school districts reported \$4 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 \$6.8 billion in other local revenues. These local revenues included, but were not limited to, \$2.7 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; \$1.4 billion from discretionary local effort millage levies for operations; \$331 million from special voter levies; and \$77 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 \$885 million for the 2017-18 fiscal year, while the same number of school districts reported local sales tax revenues totaling \$746 million for the 2016-17 fiscal year. Twenty-eight school districts reported impact fee revenues totaling \$352 million for the 2017-18 fiscal year, while the same number of school districts reported impact fee revenues totaling \$330 million for the 2016-17 fiscal year. Impact fees were in place during the 2017-18 fiscal year for 6 other school districts, but the fee collections remained suspended.

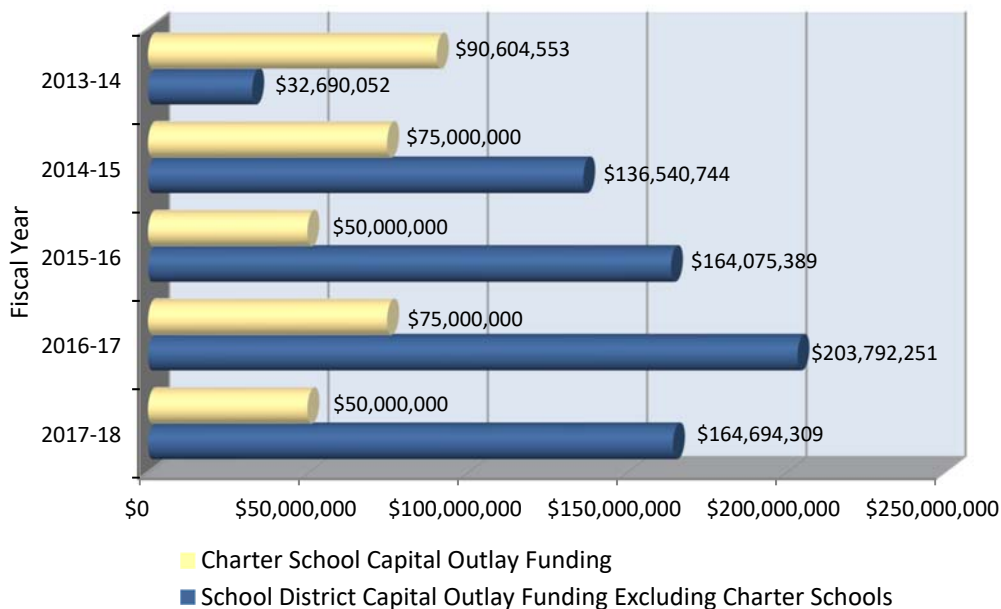
Federal Revenues. Special revenue fund resources consist of moneys restricted by Federal and State grantors³³ to be used for specific program purposes, such as those of the Title I and National School Lunch Act programs. Because these resources are restricted, school districts can use them only for specific 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 2017-18 fiscal year totaled \$518 million as compared to \$1.2 billion for the 2016-17 fiscal year. The significant decrease in debt issuance proceeds from the 2016-17 fiscal year primarily related to the decreased construction project financing. 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.

³³ Most Federal revenues are provided to school districts through State agencies.

State Capital Outlay Appropriations. Certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,³⁴ are provided for school district new construction and facilities maintenance projects. These statutory appropriations have included PECO, Classrooms First, Classrooms for Kids, and Capital Outlay and Debt Service (CO&DS), funded predominantly using proceeds from the gross receipts and motor vehicle licensing taxes established by the State Constitution.³⁵ As shown in Chart 4, State capital outlay appropriations to school districts,³⁶ excluding funding to charter schools, increased from \$32.7 million for the 2013-14 fiscal year to \$164.7 million for the 2017-18 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 and 2017-18 fiscal years to a high of \$90.6 million for the 2013-14 fiscal year.

Chart 4
State Capital Outlay Appropriations
For the 2013-14 Through 2017-18 Fiscal Years



The \$39.1 million decrease in State capital outlay appropriations to school districts for the 2017-18 fiscal year was composed of a decrease in PECO funding of \$51.8 million offset by an increase of CO&DS funding of \$12.7 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, 2014, and June 30, 2015, 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 3 fiscal years, the total general fund balances increased to \$2.6 billion mainly due to increases in State FEFP revenues and revenues from local property taxes levied for operational purposes.

³⁴ Section 1013.65, Florida Statutes.

³⁵ Article XII, Sections 9(a)(2) and 9(d) of the State Constitution.

³⁶ 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, 2014, Through June 30, 2018
(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.

OTHER MATTERS OF INTEREST

Findings Repeated from Previous Audit Reports

State law³⁷ 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 238 findings³⁸ included in the audit reports issued during the period July 1, 2018, through June 30, 2019, 22 (9 percent) were also included in the two preceding financial or operational audit reports. In comparison, of the 198 findings included in the audit reports issued during the period July 1, 2017, through June 30, 2018, 23 (12 percent) had also been included in the two preceding financial or operational audit reports.

³⁷ Sections 11.45(7)(j) and 218.39(8), Florida Statutes.

³⁸ The 238 findings were included in the audit reports issued during the 2018-19 fiscal year; whereas, there were 249 findings included in the audit reports for the 2017-18 fiscal year as discussed under the heading **Classification of Audit Findings**.

Pursuant to State law, on July 1, 2019, we notified the Legislative Auditing Committee of the 15 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 17 district school boards included in our notification for the 2016-17 fiscal year.

School District Budget Transparency

State law³⁹ 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.

The audit reports for two school districts (Dixie and Jefferson) included findings for noncompliance with the budget transparency requirements for the 2017-18 fiscal year, while none of school district reports included budget transparency findings for the 2016-17 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, 2018, 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 believe that the procedures performed provide a reasonable basis for the summaries of significant findings and financial trends included in this report.

³⁹ Section 1011.035, Florida Statutes (2017).

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, 2018.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General