

**SUMMARY OF  
SIGNIFICANT FINDINGS AND  
FINANCIAL TRENDS IDENTIFIED IN  
DISTRICT SCHOOL BOARD  
AUDIT REPORTS FOR THE  
FISCAL YEAR ENDED JUNE 30, 2020**

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 Edward A. Waller, CPA, Audit Manager, by e-mail at [tedwaller@aud.state.fl.us](mailto:tedwaller@aud.state.fl.us) or by telephone at (850) 412-2887.

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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, 2020

## SUMMARY

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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, 2020. Pursuant to State law:

- 47 school district financial audits and 24 school district operational audits were completed by the Auditor General.
- 20 school district financial audits were completed by other independent certified public accountants (CPAs) and the audit reports were filed with the Auditor General.

### Significant Findings

The audit reports for 39 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 4 school districts included findings considered to be financial statement material weaknesses and 1 school district audit report included a noncompliance and material weakness finding for a major Federal program. In comparison, for the 2018-19 fiscal year, 4 school district reports included financial statement material weakness findings, 1 school district report included a noncompliance and material weakness finding for a major Federal program, and 1 school district audit report included a major Federal program material noncompliance finding.

### Financial Trends

At June 30, 2020, the average financial condition ratio<sup>1</sup> for school districts Statewide was 9.6 percent, which is a slight decrease from the average financial condition ratio of 9.78 percent at June 30, 2019. None of the 67 school districts had financial condition ratios below 3 percent at June 30, 2020, or June 30, 2019.

## BACKGROUND

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State law<sup>2</sup> 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).

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<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.

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**

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### **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 2019-20 fiscal year, the financial audit reports for 46 school districts contained no findings, while financial audit reports for the remaining 21 school districts included a total of 37 findings. In addition, the Auditor General operational audit reports for 24 school districts included 101 findings. In total, the audit reports for 39 school districts included 138 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the 2018-19 fiscal year, the audit reports for 49 school districts included a total of 175 findings. The decrease in the number of findings can be attributed, in part, to the decreased number of findings related to control deficiencies over information technology (IT)<sup>5</sup> and administration of Florida Best and Brightest Teacher and Florida

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

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

<sup>5</sup> For the 2019-20 fiscal year, the audit reports for 13 school districts included 32 IT control deficiency findings. In comparison, for the 2018-19 fiscal year, the audit reports for 25 school districts included 57 IT control deficiency findings.

Best and Brightest Principal Scholarship Programs.<sup>6</sup> 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,<sup>7</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 Florida statutes and State Board of Education (SBE) rules.

While no school district audit reports for the 2019-20 fiscal year contained a material noncompliance finding, the audit reports for four school districts included findings considered to be material weaknesses.<sup>8</sup> Specifically, Bay, Glades, Hernando, and Pasco County School Districts needed procedural enhancements to ensure the accuracy and completeness of financial statements. The findings considered to be material weaknesses reported, for example, the Bay County School District Foundation audit and audits of the Glades County School District school internal funds were not timely completed and considered in the preparation of the Districts' financial statements, resulting in disclaimers of opinion for those Districts.

### Financial Statement Significant Deficiency and Additional Matter Findings

Findings included in 39 school districts' audit reports for the 2019-20 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 13 school districts, various IT control deficiencies were noted. Specifically:

- **Access Controls.** Audit reports for 10 school districts addressed various IT access control deficiencies. For example, at 5 school districts, inappropriate or unnecessary IT access privileges to sensitive personal information of students existed. Additionally, at 4 school districts (including 1 cited for inappropriate access privileges to sensitive student information), certain employees had full update access privileges to IT applications or components that allowed them to perform

<sup>6</sup> During the 2020 Legislative Session, Chapter 2020-94, Laws of Florida, repealed the Florida Best and Brightest Teacher Scholarship and Florida Best and Brightest Principal Scholarship Programs.

<sup>7</sup> Section 1003.621(1)(a)3., Florida Statutes.

<sup>8</sup> Similarly, for the 2018-19 fiscal year, four audit reports included material weaknesses and no audit reports included a material noncompliance finding.

functions incompatible or inconsistent with their assigned job responsibilities. Two school districts (including 1 cited for inappropriate access privileges to sensitive student information), did not timely deactivate former employee IT access privileges. Effective access controls help protect data and IT resources from unauthorized disclosure, modification, or destruction.

- **User Authentication.** Audit reports for 3 school districts (also cited for access control deficiencies) addressed the need for improvements in security controls related to user authentication for IT applications. Adequate security controls related to user authentication help ensure that unauthorized individuals do not gain access to and compromising the confidentiality, integrity, and availability of school district data and related IT resources.
- **Logging/Monitoring.** Audit reports for 3 school districts (including 2 cited for access control deficiencies) noted inadequate security control procedures over logging or monitoring of IT system activities. Without adequate security controls related to monitoring of system activities, the risk is increased that inappropriate or unauthorized activity, should it occur, may not be timely detected.
- **Vulnerability Management.** Audit reports for 2 school districts (also cited for access control deficiencies) addressed needed improvements in security controls related to vulnerability management. Scanning for vulnerabilities and proactively addressing discovered security weaknesses, as well as timely making software upgrades, reduce the risk that new weaknesses discovered in currently installed software will be exploited and IT resources and data will be compromised from unauthorized changes.
- **Device Management.** Two school districts (also cited for access control deficiencies) needed improvements in security controls over district-issued IT devices. An effective security control, such as device encryption, reduces the risk that unauthorized modification, loss, or disclosure of district data and IT resources may occur.
- **Disaster Recovery Plans.** One school district had not developed a written, comprehensive IT disaster recovery plan and another school district needed improvements in the existing disaster recovery plan. 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.
- **Other.** Other IT findings addressed the lack of critical elements of security incident response plan; improvements needed over security awareness training program; the lack of written, comprehensive IT risk assessments; and deficiencies in security controls related to IT inventory management and data protection.

**Financial Record Keeping and Records Management.** In addition to the previously discussed material weaknesses in financial reporting procedures for Bay, Glades, Hernando, and Pasco County School Districts, the audit reports for seven other school districts included findings citing certain record keeping and financial records management deficiencies. Procedures at five of the seven school districts needed improvements to ensure the accuracy and completeness of the financial statements. Most of these findings identified procedural deficiencies that caused financial misstatements requiring audit adjustments to properly present financial statements or other required supplementary information. Additionally, two other school districts were cited for deficient budgetary controls. These school districts did not always limit expenditures to budgeted amounts, contrary to State law<sup>9</sup> and SBE rules.<sup>10</sup>

**Cash Controls.** The audit reports for four school districts included findings addressing the need for enhancements in controls over cash. Two school districts needed to improve bank reconciliation

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<sup>9</sup> Section 1011.05, Florida Statutes.

<sup>10</sup> SBE Rule 6A-1007(2), Florida Administrative Code.

procedures and two other school districts needed to strengthen controls over the collection of childcare or prekindergarten program fees.

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

- **Performance Evaluation and Salary Schedule.** The school boards at two school districts had not adopted salary schedules that provided annual salary adjustments for instructional personnel or school administrators based on employee and student performance as required by State law.<sup>11</sup> Another school district paid the performance portion of the instructional personnel salaries from funds restricted to a specific program without proper legal authority. Additionally, one other school district did not always use instructional leadership measures to conduct school administrative personnel performance evaluations contrary to State law.<sup>12</sup>
- **Background Screenings and Searches.** For two school districts (including one cited for noncompliance with performance salary schedule requirements), procedures for performing background screenings of school district employees or contracted vendors with direct student contact were not adequate. Additionally, another school district did not properly conduct background searches for prospective school volunteers as required by State law.<sup>13</sup>
- **Other.** Other payroll and personnel findings addressed noncompliance with severance pay provisions of State law<sup>14</sup> and procedural enhancements needed to sufficiently and appropriately evidence employee time worked and to document supervisory review and approval of time worked.

**Expenditures and Purchasing.** For seven school districts, contract monitoring procedures needed enhancement to ensure that payments for professional services only be made pursuant to properly authorized documents, service deliverables and related costs are established and authorized, and the satisfactory receipt of services is documented prior to payment. In addition, three other school districts needed to improve controls over purchasing cards by, for example, effectively monitoring credit limits and timely canceling accounts upon an employee's separation from employment. Also, records at two school districts (also cited for contract monitoring control deficiencies) did not clearly demonstrate that certain IT purchases were in accordance with SBE rules<sup>15</sup> and at the lowest price consistent with desired quality.

**Capital Outlay Expenditures and Related Activities.** Audit report findings for ten school districts addressed the need to improve controls over capital outlay expenditures and related activities. For example:

- **Construction Monitoring.** For five 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.

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<sup>11</sup> Section 1012.22(1)(c)4. and 5., Florida Statutes.

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

<sup>13</sup> Section 943.04351, Florida Statutes.

<sup>14</sup> Section 215.425, Florida Statutes.

<sup>15</sup> SBE Rule 6A-1.012(14), Florida Administrative Code.

- **Acquiring Professional Services.** One school district (also cited for construction monitoring deficiencies) did not document compliance with the statutory competitive negotiation process<sup>16</sup> for architect services and State records retention requirements.<sup>17</sup>
- **Restricted Capital Outlay Resources.** Audit reports for four school districts (including one also cited for construction monitoring deficiencies) noted control deficiencies related to restricted capital outlay resources. Specifically, records at three of the four school districts did not evidence that ad valorem tax levy proceeds were used in accordance with applicable statutory provisions. Contrary to State law,<sup>18</sup> these school districts expended ad valorem tax levy proceeds ranging from \$145,968 to \$778,407 for unallowable purposes, such as custodial services, certain vehicle purchases, or unallowable personnel and vendor costs. Also, one of the three school districts expended Capital Outlay and Debt Service State proceeds totaling \$405,905 for projects not designated on an approved project priority list, contrary to Florida Department of Education (FDOE) requirements.<sup>19</sup> Additionally, sales surtax proceeds at two school districts (including one cited for ad valorem tax levy proceeds control deficiencies) were not used for purposes authorized by State law,<sup>20</sup> resulting in questioned costs totaling \$8.2 million.
- **Other.** Other capital outlay expenditures and related activities findings addressed procedural enhancements needed for the operating effectiveness and efficiency of a school district facilities and maintenance department; noncompliance with educational facility safety inspection standards; and improvements needed in capital planning and budgeting procedures.

**School Safety.** For seven school districts, audit report findings addressed control deficiencies related to school safety policies and procedures. Specifically:

- **Safe-School Officer.** Five school districts did not always maintain documented verifications that safe-school officers were appropriately trained as required by State law<sup>21</sup> or that at least one safe-school officer was assigned during school hours at each school facility.
- **Emergency Drills.** Four school districts (including three cited for deficiencies in safe-school officer services) did not always comply with emergency drill requirements specified in State law<sup>22</sup> and the Fire Code.<sup>23</sup> These school districts had not properly established verification procedures to ensure that, for each month school is in session, the required active shooter and hostage situations and fire emergency drills were conducted and documented for each school.
- **Mental Health Care Services.** Audit reports at two school districts (including one cited for deficiencies in safe-school officer services and emergency drill requirements) addressed control deficiencies over mental health care services. These school districts did not always provide for required mental health awareness personnel training pursuant to State law<sup>24</sup> or mental health awareness student instruction pursuant to SBE rules.<sup>25</sup> Also, one of the two school districts did not always timely submit mental health care plans and required reports for the 2018-19 and 2019-20 fiscal years.

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<sup>16</sup> Section 287.055, Florida Statutes.

<sup>17</sup> *State of Florida General Records Schedules GS1-SL for State and Local Government Agencies*, Item #s 64 and 70.

<sup>18</sup> Sections 1011.71, Florida Statutes.

<sup>19</sup> FDOE, Office of Educational Facilities, publication (2014) *State Requirements for Educational Facilities*, Section 2.1(5).

<sup>20</sup> Section 212.055(6), Florida Statutes.

<sup>21</sup> Section 1006.12, Florida Statutes.

<sup>22</sup> Section 1006.07(4), Florida Statutes.

<sup>23</sup> Section 20.2.4.2.3 of the Florida Fire Prevention Code, 6th Edition (2017).

<sup>24</sup> Section 1012.584, Florida Statutes.

<sup>25</sup> SBE Rule 6A-1.094121(1), Florida Administrative Code. Effective December 22, 2020, this Rule was repealed, and the required instruction planning and reporting were added to SBE Rule 6A-1.094124, Florida Administrative Code.

- **Safe School Allocation.** Records at one school district (also cited for emergency drill requirements) did not evidence that the State safe school allocation<sup>26</sup> was used only for authorized purposes, resulting in questioned costs totaling \$48,580.

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

- **Monitoring Health Insurance Participant Eligibility.** For three school districts, procedural improvements were needed for verifying eligibility of dependents covered by the school district health insurance plan. School district personnel at those school districts did not always review documentation necessary to support the eligibility of all dependents enrolled in the insurance plans and had not established procedures to document periodic verifications to ensure that dependent participants in the plan remained eligible.
- **Self-Insurance Program.** One school district needed to develop a formal plan for establishing a target net position balance for monitoring the financial condition of the school district's self-funded employee health insurance program. In addition, another school district did not obtain a certification as to the actuarial soundness of the school district's self-insurance plan nor did it obtain approval from the Florida Office of Insurance Regulation prior to plan implementation, contrary to State law.<sup>27</sup>
- **Acquiring Health Insurance Services.** One school district did not use competitive bidding procedures required by State law<sup>28</sup> when procuring a health insurance plan.
- **Self-Insurance Claim Payments.** One school district (also cited for monitoring health insurance participant eligibility) needed enhanced procedures to effectively monitor a service agent for the school 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.

**Adult General Education Classes.** Although General Appropriations Act proviso language<sup>29</sup> required each school district to report enrollment for adult general education programs identified in State law<sup>30</sup> in accordance with SBE rules<sup>31</sup> and FDOE instructional hours reporting procedures,<sup>32</sup> four school districts were cited for misreporting 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.

**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 need for improved controls over tangible personal property and noncompliance with the requirements related to internal audit function pursuant to State law.<sup>33</sup>

## Federal Awards Findings

The audit reports for ten school districts included a total of 13 Federal awards findings (10 findings related to major Federal programs and 3 findings related to nonmajor Federal programs). These findings

<sup>26</sup> Section 1011.62(15), Florida Statutes.

<sup>27</sup> Section 112.08, Florida Statutes.

<sup>28</sup> Section 112.08(2)(a), Florida Statutes.

<sup>29</sup> Chapter 2019-115, Laws of Florida, Specific Appropriation 125.

<sup>30</sup> Section 1004.02(3), Florida Statutes.

<sup>31</sup> SBE Rule 6A-10.0381(5), Florida Administrative Code.

<sup>32</sup> FDOE's Technical Assistance Paper: *Adult General Education Instructional Hours Reporting Procedures*, Dated September 2019.

<sup>33</sup> Section 1001.42(12)(l), Florida Statutes.

addressed the Federal compliance requirements of Allowable Costs and Cost Principles; Eligibility; Special Tests and Provisions; and Subrecipient Monitoring and related to the Title I, Child Nutrition Cluster, Special Education Cluster, Federal Pell, and Supporting Effective Instruction State Grants programs.

One of the ten school district audit reports included a noncompliance and material weakness in internal control over compliance finding for a major Federal program, resulting in a qualified opinion on the program (Suwannee). Comparatively, for the 2018-19 fiscal year, one school district was cited with noncompliance and material weakness in internal control over compliance and another school district was cited with material noncompliance for a major Federal program. Additionally, we noted that eight of the ten school districts had a total of 8 noncompliance and/or significant deficiency findings that were material to applicable compliance requirement types for major Federal programs. One of these eight school districts also had a control deficiency finding in internal control over a major Federal program.

For the 2019-20 fiscal year, seven school district audit reports each had a finding or findings that identified Federal program questioned costs. The known questioned costs for these seven school districts ranged from \$37,190 to \$301,067 and totaled \$866,350. In comparison, for the 2018-19 fiscal year, six school district audit reports each had a finding that identified Federal program questioned costs ranging from \$2,539 to \$2.6 million and totaled \$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 supportive of 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***

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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 Finance Officers Association (GFOA)<sup>34</sup> 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,<sup>35</sup> 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

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<sup>34</sup> GFOA Best Practice, *Fund Balance Guidelines for the General Fund* (September 2015).

<sup>35</sup> 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**

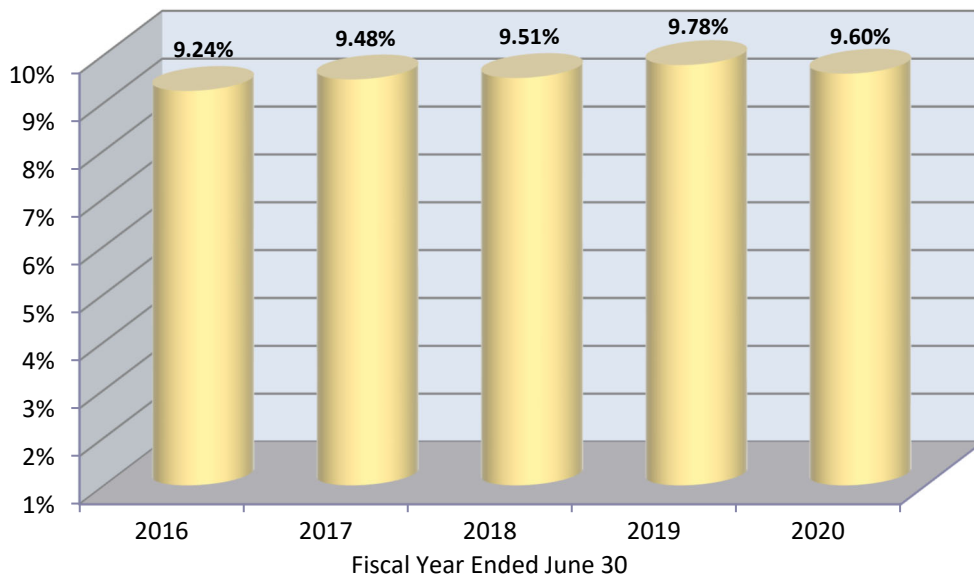
$\frac{\text{General Fund Total Assigned and Unassigned Fund Balance}}{\text{General Fund Total Revenues}} = \text{Financial Condition Ratio (\%)}$
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We also considered revenue stream characteristics and expenditure practices for school districts. In 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, 2016, through June 30, 2020. As shown in Chart 1, the average financial condition ratio was 9.60 percent at June 30, 2020, which is a slight decrease from the fiscal year average financial condition ratio at June 20, 2019.

**Chart 1  
Average Financial Condition Ratios of School Districts  
For the Fiscal Years Ended June 30, 2016, Through June 30, 2020**



State law<sup>36</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 districts’ approved operating budget is projected to fall below 3 percent during the current fiscal year,

<sup>36</sup> Section 1011.051, Florida Statutes.

school district superintendents must provide written notification to the Commissioner of Education and respective school board. For the fiscal years ended June 30, 2018, through June 30, 2020, none of the 67 school districts had a financial condition ratio below 3 percent.

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>37</sup> 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,<sup>38</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. For the fiscal years ended June 30, 2018, through June 30, 2020, none of the 67 school districts had a financial condition ratio projected to fall below 2 percent.

Table 2 shows the school districts with the largest financial condition ratio increases and decreases for the fiscal years ended June 30, 2016, through June 30, 2020. While the largest ratio increases may indicate that a school district is experiencing better financial health and solvency, large decreases may prompt school district management to consider whether resources are being used most efficiently for district needs. As further discussed in the section **Factors Impacting Financial Condition**, factors that may have impacted these changes include property taxable values and changes in student enrollment.

**Table 2**  
**Changes in Financial Condition Ratios and Fund Balances**  
**2015-16 Fiscal Year Through the 2019-20 Fiscal Year**

School District	Financial Condition Ratios			Ending Fund Balances <sup>a</sup> (In Thousands)		
	2015-16	2019-20	Change	2015-16	2019-20	Change
<b>Largest Ratio Increases</b>						
1 Calhoun	14.62%	72.62%	58.00%	\$ 2,618	\$ 13,475	\$ 10,857
2 Walton	17.30%	43.94%	26.64%	13,163	44,775	31,612
3 Gulf	9.23%	34.20%	24.97%	1,533	7,666	6,133
4 Bay	11.85%	26.51%	14.66%	24,591	64,661	40,070
5 Gadsden	6.77%	20.16%	13.39%	2,854	8,120	5,266
<b>Largest Ratio Decreases</b>						
1 Orange	24.71%	17.35%	(7.36)%	383,993	308,864	(75,129)
2 Dixie	17.97%	11.29%	(6.68)%	2,893	2,044	(849)
3 Jackson	16.32%	10.76%	(5.56)%	8,180	5,667	(2,513)
4 Bradford	10.05%	4.84%	(5.21)%	2,525	1,309	(1,216)
5 Hardee	15.88%	10.84%	(5.04)%	6,321	4,271	(2,050)

<sup>a</sup> Fund balances represent the total assigned and unassigned fund balances at fiscal year end.

<sup>37</sup> Section 1011.051(2), Florida Statutes.

<sup>38</sup> 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 risks associated with a weak or healthy 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 \$1.76 trillion in the 2016 calendar year to \$2.3 trillion in the 2020 calendar year, or an increase of 31 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 20 percent, from \$12.3 billion for the 2015-16 fiscal year to \$14.7 billion for the 2019-20 fiscal year.

**Increasing Enrollment.** Over the past 5 years, Statewide student enrollment increased 3 percent, from 2,740,302 for the 2015-16 fiscal year to 2,814,348 for the 2019-20 fiscal year. A total of 43 school districts experienced enrollment growth during this 5-year period, including 11 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 43 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 3**  
**School Districts with Enrollment Growth of**  
**More than 5 Percent and 1,000 Unweighted FTE Students**  
**2015-16 Fiscal Year Through the 2019-20 Fiscal Year**

School District	Unweighted FTE			Percent Increase
	2015-16	2019-20	Increase	
1 Walton	8,560	10,178	1,618	18.90%
2 St. Johns	36,240	43,037	6,797	18.76%
3 Hendry	7,111	8,245	1,134	15.95%
4 Osceola	61,141	69,378	8,237	13.47%
5 Pasco	69,611	76,214	6,603	9.49%
6 Santa Rosa	26,236	28,595	2,359	8.99%
7 Polk	99,247	106,782	7,535	7.59%
8 Orange	195,408	207,751	12,343	6.32%
9 Lake	41,839	44,473	2,634	6.30%
10 Okaloosa	30,183	31,967	1,784	5.91%
11 Hillsborough	208,395	218,997	10,602	5.09%

**Declining Enrollment.** While student enrollment increased in total for school districts from the 2015-16 fiscal year through the 2019-20 fiscal year, 24 school districts experienced enrollment declines ranging from 3 to 8,036 unweighted FTE during this period. Of these 24 school districts, only 3 (Miami-Dade, Pinellas, and Bay) declined by 1,000 or more 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 noninstructional and administrative 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 2019-20 fiscal year, the base Florida Education Finance Program (FEFP) allocation was \$4,279.49 per weighted FTE student, which represents an increase of \$75.07 from the base FEFP allocation of \$4,204.42 per weighted FTE student for the 2018-19 fiscal year. Also, based on the 2020-21 fiscal year FEFP fourth calculation, the base FEFP allocation for the 2020-21 fiscal year increased by \$40 per weighted FTE to \$4,319.49. The weighted FTE student enrollment in school districts increased by 45,560, or 1.5 percent, from the 2018-19 to the 2019-20 school year. On the contrary, the weighted FTE student enrollment in the 2020-21 school year decreased by 63,789, or 2.1 percent, based on the 2020-21 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, 2020, consisted primarily of:

- COPs totaling \$9.7 billion (38 school districts).
- General obligation bonds totaling \$1.2 billion (2 school districts).
- School district revenue bonds totaling \$924.5 million (28 school districts).
- Qualified School Construction Bonds (QSCBs) totaling \$897.5 million (20 school districts).
- Qualified Zone Academy Bonds (QZABs) totaling \$214.6 million (19 school districts).
- State Board of Education bonds totaling \$73.3 million (32 school districts).
- Long-term debt notes totaling \$70.4 million (10 school districts).
- Build America Bonds (BABs) totaling \$31.9 million (2 school district).

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, 2020, pledged resources were generally sufficient to cover the required debt service by school districts.

Of the 38 school districts with COPs at June 30, 2020, 2 school districts had variable interest rate COPs and had entered into a total of three 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, 2020, total fair values of the interest rate swap agreements for the 2 school districts were negative \$44.4 million and negative \$23.7 million, respectively, a decrease over the fair values at June 30, 2019, which were negative \$32.7 million and negative \$16.6 million. Notwithstanding, the June 30, 2020, agreements are associated with COPs with remaining terms ranging from 2 to 12 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, 2020, these 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 or custodial 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 \$32.7 billion in the governmental funds for the 2019-20 fiscal year, an increase of \$1.1 billion (3.47 percent) over the 2018-19 fiscal year.

**Table 4**  
**School District Revenues – All Governmental Funds**  
**For the 2018-19 and 2019-20 Fiscal Years**

Governmental Fund Type	2018-19		2019-20		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	\$22,802,067,660	72.23%	\$23,828,276,446	72.95%	\$1,026,208,786	4.50%
Other Funds	8,766,267,099	27.77%	8,834,122,001	27.05%	67,854,902	0.77%
<b>Totals</b>	<b>\$31,568,334,759</b>	<b>100.00%</b>	<b>\$32,662,398,447</b>	<b>100.00%</b>	<b>\$1,094,063,688</b>	<b>3.47%</b>

Table 5 shows, by source, the total governmental fund type revenues reported by school districts for the 2018-19 and 2019-20 fiscal years, and the related changes by revenue source.

**Table 5**  
**School District Revenues by Source – All Governmental Funds**  
**For the 2018-19 and 2019-20 Fiscal Years**

Source	2018-19		2019-20		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 3,589,338,016	11.37%	\$ 3,468,489,645	10.62%	\$(120,848,371)	(3.37)%
State	12,586,612,185	39.87%	12,812,042,595	39.23%	225,430,410	1.79%
Local	15,392,384,558	48.76%	16,381,866,207	50.15%	989,481,649	6.43%
<b>Totals</b>	<b><u>\$31,568,334,759</u></b>	<b><u>100.00%</u></b>	<b><u>\$32,662,398,447</u></b>	<b><u>100.00%</u></b>	<b><u>\$1,094,063,688</u></b>	<b><u>3.47%</u></b>

The 1.1 billion (3.47 percent) increase in total revenues for the 2019-20 fiscal year consisted of a net decrease in Federal revenues of \$121 million, an increase in State revenues of \$225 million, and an increase in local revenues of \$989 million. The revenue increase in local revenues was due, in part, to increases in property taxable values, resulting in additional revenues from the millage levies of approximately \$965 million. The increase in State revenues consisted of a net increase of \$597 million in State FEFP revenues and a decrease of \$372 million in restricted State revenues.

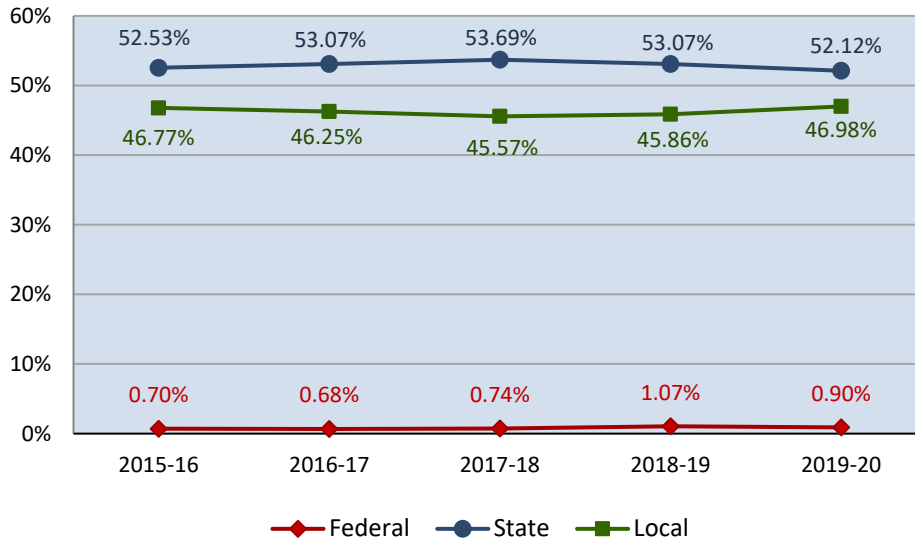
Table 6 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2018-19 and 2019-20 fiscal years, and the related changes in these revenues.

**Table 6**  
**School District General Fund Revenues by Source**  
**For the 2018-19 and 2019-20 Fiscal Years**

Source	2018-19		2019-20		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 243,587,546	1.07%	\$ 212,919,795	0.90%	\$ (30,667,751)	(12.59)%
State	12,100,712,502	53.07%	12,419,906,723	52.12%	319,194,221	2.64%
Local	10,457,767,612	45.86%	11,195,449,928	46.98%	737,682,316	7.05%
<b>Totals</b>	<b><u>\$22,802,067,660</u></b>	<b><u>100.00%</u></b>	<b><u>\$23,828,276,446</u></b>	<b><u>100.00%</u></b>	<b><u>\$1,026,208,786</u></b>	<b><u>4.50%</u></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 2 shows the percentage of Statewide general fund revenues from Federal, State, and local sources for the 2015-16 through 2019-20 fiscal years.

**Chart 2**  
**Percentage of School District General Fund Revenues**  
**From Federal, State, and Local Sources**  
**For the 2015-16 Through 2019-20 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 \$16.9 billion for the 2019-20 fiscal year, and consisted of \$9 billion in State revenues and \$7.9 billion in local revenues. In addition to the \$9 billion in State revenues for operations as part of the FEFP, the school districts reported \$3.8 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 \$7.9 billion in local revenues for funding operations as part of the FEFP, the school districts reported \$8.5 billion in other local revenues. These local revenues included, but were not limited to, \$3.1 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; \$1.6 billion from discretionary local effort millage levies for operations; \$936 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. Thirty school districts reported local sales tax revenues totaling \$1.1 billion for the 2019-20 fiscal year, while 29 school districts reported local sales tax revenues totaling \$1 billion for the 2018-19 fiscal year. Twenty-seven school districts reported impact fee revenues totaling \$485 million for the 2019-20 fiscal year, while 26 school districts reported impact fee revenues totaling \$459 million for the 2018-19 fiscal year. Impact fees were in place during the

2019-20 fiscal year for 7 other school districts but the respective counties suspended fee collections primarily to stimulate construction development and help local economies.

**Federal Revenues.** Special revenue fund resources consist of moneys restricted by Federal and State grantors<sup>39</sup> 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 2019-20 fiscal year totaled \$1.4 billion, compared to \$582 million for the 2018-19 fiscal year. The significant increase in debt issuance proceeds over the 2018-19 fiscal year primarily related to the increased 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.

**State Capital Outlay Appropriations.** Certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,<sup>40</sup> 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.<sup>41</sup> As shown in Chart 3, State capital outlay funding to school districts,<sup>42</sup> excluding funding to charter schools, ranged from a low of \$164 million for the 2015-16 fiscal year to a high of \$308 million for the 2018-19 fiscal year. During that same 5-year period, State capital outlay appropriations for charter schools increased from \$50 million for the 2015-16 fiscal year to \$158 million for the 2019-20 fiscal year.

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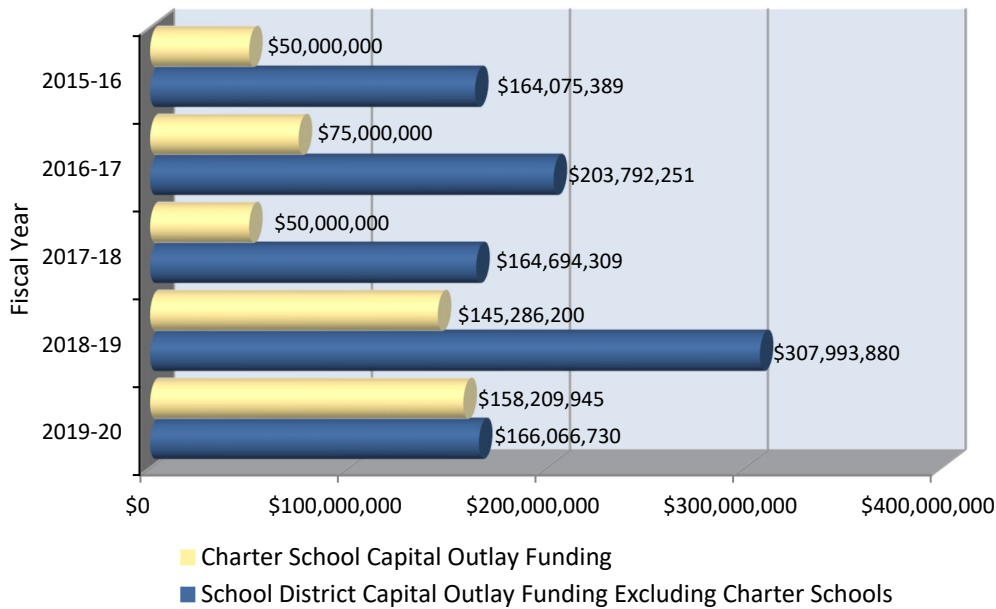
<sup>39</sup> Most Federal revenues are provided to school districts through State agencies. For the 2020-21 fiscal year, there was a significant increase in Federal revenues to school districts for COVID-19 pandemic relief.

<sup>40</sup> Section 1013.65, Florida Statutes.

<sup>41</sup> Article XII, Sections 9(a)(2) and 9(d) of the State Constitution.

<sup>42</sup> State capital outlay appropriations include PECO, Classrooms First, Classrooms for Kids, and CO&DS (excluding interest earnings on undistributed CO&DS).

**Chart 3**  
**State Capital Outlay Appropriations**  
**For the 2015-16 Through 2019-20 Fiscal Years**



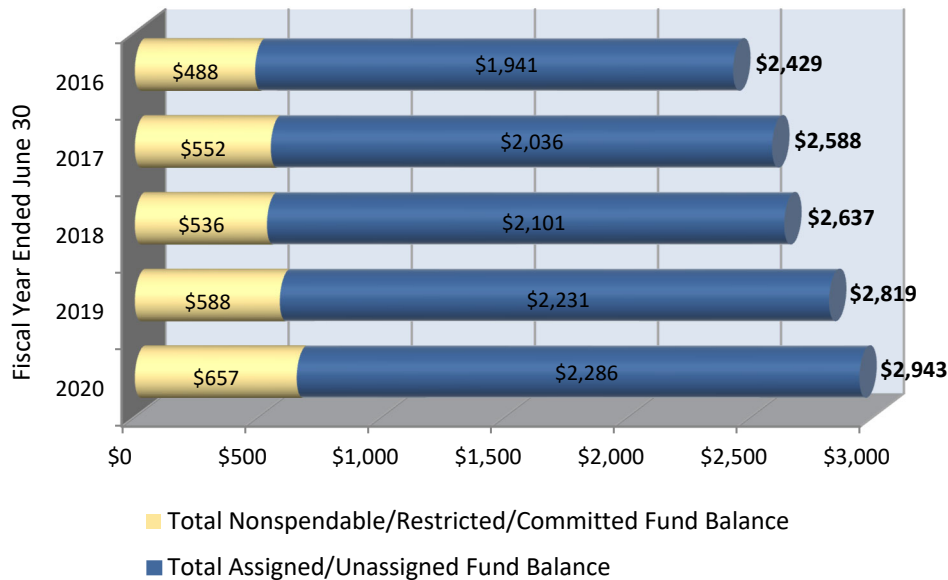
The \$142 million decrease in State capital outlay appropriations to school districts for the 2019-20 fiscal year was composed of a net decrease in PECO funding of \$146 million and an increase in CO&DS funding of \$4 million. This significant decrease was due, in part, to a \$50 million decrease in PECO maintenance funding, a \$60 million decrease in educational facilities security funding,<sup>43</sup> and a \$26 million decrease for nonrecurring funding related to the 2018-19 fiscal year funding provided to the Broward County School District for building a memorial and replacing educational facilities at Marjory Stoneman Douglas High School.<sup>44</sup>

**Fund Balance Trends.** As shown in Chart 4, the total fund balances of the school district general funds (operating funds) increased from \$2.4 billion to \$2.9 billion over the past 4 years mainly due to increases in State FEFP revenues and revenues from local property taxes levied for operational purposes.

<sup>43</sup> For the 2018-19 fiscal year, Chapter 2018-3, Laws of Florida, Section 44, appropriated \$99 million funding to the FDOE to implement a grant program that provides capital outlay funds to improve the physical security of school buildings. For the 2019-20 fiscal year, \$39 million funding was appropriated for the school hardening grant program to improve the physical security of school buildings pursuant to Chapter 2019-115, Laws of Florida, Section 2, Specific appropriation 116A.

<sup>44</sup> Chapter 2018-3, Laws of Florida, Sections 38 and 39.

**Chart 4**  
**Fund Balances of the General Fund**  
**For the Fiscal Years Ended June 30, 2016, Through June 30, 2020**  
**(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 4, the total assigned and unassigned portions of the general fund balance steadily increased each year from \$1.9 billion at June 30, 2016, to \$2.3 billion at June 30, 2020.

## **OTHER MATTERS OF INTEREST**

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

State law<sup>45</sup> requires the Auditor General to notify the Legislative Auditing Committee (LAC) 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 144 findings<sup>46</sup> included in the audit reports issued during the period July 1, 2020, through June 30, 2021, 7 findings (5 percent) were also included in the two preceding financial or operational audit reports. In comparison, of the 195 findings included in the audit reports issued during the period July 1, 2018, through June 30, 2019, 15 findings (8 percent) had also been included in the two preceding financial or operational audit reports.

<sup>45</sup> Sections 11.45(7)(j) and 218.39(8), Florida Statutes.

<sup>46</sup> The 144 findings were included in audit reports issued during the 2019-20 fiscal year; whereas there were 138 findings included in the audit reports for the 2019-20 fiscal year, as discussed under the heading **Classification of Audit Findings**.

Pursuant to State law, on June 30, 2021, we notified the LAC of the 7 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 11 district school boards included in our notification for the 2018-19 fiscal year.

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## School District Fiscal Transparency

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State law<sup>47</sup> requires the Auditor General to annually transmit to legislative leadership (President of the Senate and Speaker of the House) and the Department of Financial Services (DFS) a list of all school districts that have failed to comply with statutory transparency requirements. State law<sup>48</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. In addition, effective July 1, 2019, the information posted on the school district Web site must include graphical representations, for each public school, of summary financial efficiency data and fiscal trend information for the previous 3 years, and a link to the Web-based fiscal transparency tool developed by the FDOE. The law also 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. Fiscal transparency leads to more responsible spending, more citizen involvement, and improved accountability.

Pursuant to State law, on July 7, 2021, we notified legislative leadership and the DFS of 19 district school boards that failed to comply with the transparency requirements, as shown in Table 7, while one district school board was included in our notification for the 2018-19 fiscal year. The significant increase in the instances of noncompliance mainly occurred because school district Web sites occasionally lacked the required graphical representations.

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<sup>47</sup> Section 11.45(7)(i), Florida Statutes.

<sup>48</sup> Section 1011.035, Florida Statutes.

**Table 7**  
**School Districts Cited in an Audit**  
**For Noncompliance with Section 1011.035(2), Florida Statutes**  
**For the 2019-20 Fiscal Year**

Number	School District	Number	School District
1	Baker	11	Martin
2	Bay	12	Monroe
3	Bradford	13	Okeechobee
4	Calhoun	14	Pinellas
5	Franklin	15	Seminole
6	Highlands	16	St. Johns
7	Hillsborough	17	Taylor
8	Lake	18	Union
9	Liberty	19	Walton
10	Marion		

### Corrective Action Notification

State law<sup>49</sup> requires the Auditor General to contact each district school board (school district) and request evidence of corrective action to address the Auditor General’s previous operational audit report findings and recommendations. The school district must provide the Auditor General with evidence of the initiation of corrective action within 45 days after the request and completion of corrective action within 180 days after the request. If the school district fails to comply with the Auditor General’s request or is unable to take corrective action within the required time frame, the Auditor General must notify the LAC.

Pursuant to State law, on September 10, 2020, we notified the LAC of the 9 school districts<sup>50</sup> that were unable to provide us evidence of corrective action within 180 days after requests were made for findings in reports issued July 1, 2019, through December 31, 2019. In addition, on July 15, 2021, we notified the LAC of the 11 school districts<sup>51</sup> that were unable to provide us evidence of corrective action within 180 days after requests were made for findings in reports issued January 1, 2020, through December 31, 2020.

<sup>49</sup> Section 11.45(7)(k), Florida Statutes, effective July 1, 2019.

<sup>50</sup> The 9 school districts included Desoto, Gadsden, Gilchrist, Gulf, Hamilton, Hendry, Madison, Seminole, and St. Johns School Districts.

<sup>51</sup> The 11 school districts included Baker, Brevard, Charlotte, Hillsborough, Indian River, Leon, Miami-Dade, Pinellas, Putnam, Santa Rosa, and Walton School Districts.

## **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, 2020, 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.

## **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, 2020.

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

Sherrill F. Norman, CPA  
Auditor General