STATE OF FLORIDA AUDITOR GENERAL

Report No. 2018-030
November 2017

SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN DISTRICT SCHOOL BOARD AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Sherrill F. Norman, CPA
Auditor General

This project was coordinated by Stellar Lee, CPA.

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

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

FLAuditor.gov

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

State of Florida Auditor General

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

SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN DISTRICT SCHOOL BOARD AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SUMMARY

This report provides a summary of significant findings and financial trends identified in the audits of the 67 district school boards. For the 2015-16 fiscal year, our Office performed financial audits of 47 school districts and other independent certified public accountants (CPAs) performed financial audits of 20 school districts. The 20 financial audit reports prepared by the other independent CPAs were required to be filed with our Office no later than March 31, 2017. In addition to the financial audits, we performed operational audits of 19 school districts.

Significant Findings

The audit reports for 42 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 3 school districts included findings considered to be material weaknesses, which represents a decrease compared to the audit reports for 5 school districts that included material weaknesses for the 2014-15 fiscal year. One of the 3 audit reports also cited an instance of material noncompliance.

Financial Trends

At June 30, 2016, the average financial condition ratio[1] for school districts Statewide was 9.24 percent, which is a slight increase over the average financial condition ratio at June 30, 2015. Of the 67 school districts, only 1 had a financial condition ratio that was below 3 percent at June 30, 2016. In this circumstance, this school district had fewer resources available for emergencies and unforeseen situations than the other school districts.

BACKGROUND

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

[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 law[3] requires the Auditor General to conduct operational audits of district school boards at least every 3 years. The operational audits are to be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and must include:

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

In addition, State law[4] 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 2015-16 fiscal year, the financial audit reports for 25 school districts contained no findings, while financial and operational audit reports for the remaining 42 school districts included a total of 252 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the 2014-15 fiscal year, the audit reports for 54 school districts included a total of 325 findings. The decrease in the number of findings can be attributed, in part, to enhanced school district controls over virtual instruction. For purposes of this report, audit findings are generally classified in one of three categories:

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

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

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

Financial Statement Material Weakness and Material Noncompliance Findings

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

The audit reports for the 2015-16 fiscal year for three school districts (Jefferson, Leon, and Taylor) included findings that were considered to be material weaknesses.[6] Additionally, while no school district audit report contained an abuse finding, the material weakness cited for Jefferson County School District was also considered to be an instance of material noncompliance. Specifically:

- Jefferson County School District was cited for deficient controls over and material noncompliance associated with the budgetary process. Because of the deficient controls and material noncompliance, the District general fund total assigned and unassigned fund balance experienced deficits of $242,542 at June 30, 2015, and deficits of $33,048 at June 30, 2016. On August 10, 2016, the Commissioner of Education notified the Superintendent that the District's proposed actions could not be reasonably anticipated to avoid a financial emergency and, as a result, declared the District to be in a state of financial emergency.
- Leon County School District needed internal controls improvements to strengthen accountability for capital assets and reconciliation procedures of District bank and investment accounts.
- Taylor County School District needed to improve cash collection procedures for school internal funds as one of the District's seven schools had incomplete and insufficient evidence to support cash receipts and disbursements. As a result, the independent auditor's report contained a disclaimer of opinion on the school internal funds financial statements and a qualified opinion on the aggregate remaining fund information of the District.

Financial Statement Significant Deficiency and Additional Matter Findings

The following is a summary of the findings included in the 42 school district audit reports for the 2015-16 fiscal year that addressed control deficiencies; instances of noncompliance with applicable laws, rules, and regulations; or additional matters.

[5] Section 1003.621(1)(a)3., Florida Statutes.

[6] For the 2014-15 fiscal year, five audit reports included material weaknesses and no material noncompliance.

Information Technology. For 25 school districts, various information technology (IT) control deficiencies were noted. Specifically:

- **Access Controls**. Audit reports for 18 school districts addressed various IT access control deficiencies. For example, at certain school districts, inappropriate or unnecessary access privileges existed or procedures for the periodic review of IT access privileges were not in place. Additionally, one of these school districts did not timely deactivate former employee IT access privileges. Effective access controls help protect district data and IT resources from unauthorized modification, loss, or disclosure.
- **User Authentication**. The need for improvements in security controls related to user authentication for IT applications were noted for 13 school districts (including 7 cited for access control deficiencies and 6 other school districts). Adequate security controls related to user authentication help ensure the confidentiality, integrity, and availability of district data and IT resources.
- **Logging/Monitoring**. Audit reports for 9 school districts (including 5 cited for access and user authentication control deficiencies and 4 other school districts) noted inadequate security control procedures over logging or monitoring of data and IT resources. Without adequate security controls related to monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.
- **Disaster Plans**. Six school districts (including 3 cited for access and user authentication control deficiencies and 3 other school districts) had not developed written, comprehensive IT disaster recovery plans or needed improvements in existing disaster preparedness or recovery plans. A disaster recovery 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 of software failure.
- **Data Loss Prevention**. Six of the 13 school districts cited for user authentication control deficiencies also 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.
- **Risk Assessment**. Audit reports noted that 3 school districts (including 2 of the school districts cited for access, user authentication, and data loss prevention control deficiencies and 1 other school district) had not developed written, comprehensive IT risk assessments. IT risk assessments, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, help support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.
- **Security Incident Response Plans**. Two of the school districts cited for access, user authentication, data loss prevention, and risk assessment control deficiencies also lacked written security incident response plans or needed enhancements in existing plans. Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to computer security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification of the affected parties.

Financial Record Keeping and Records Management. In addition to the previously discussed material weakness and material noncompliance in budgetary controls noted for Jefferson County School District, the audit reports for 21 other school districts cited certain record keeping and financial records management deficiencies. For 18 of these school districts, findings disclosed audit adjustments necessary to accurately present the financial statements and the untimely submission of the annual financial report to the Florida Department of Education (FDOE). Other findings and recommendations addressed deficiencies in transportation inventory accountability, budgetary monitoring, and recording journal entries.

Cash Controls. In addition to the previously discussed material weakness in bank and investment accounts reconciliation procedures noted for Leon County School District, the audit reports for five school districts included findings addressing cash control deficiencies. Four of these five school districts needed to improve bank reconciliation procedures and one of the four school districts also needed to enhance technical college fee collection procedures and another school district was cited for child care collection deficiencies. In addition, one of the four school districts that needed to improve bank reconciliation procedures also needed to appropriately separate duties related to electronic funds transfers.

Capital Assets Management. In addition to the previously mentioned material weakness in internal controls over capital assets noted for Leon County School District, the audit reports for five school districts addressed deficiencies in accountability for long-term assets including land, improvements other than buildings, construction in progress, buildings and fixed equipment, and tangible personal property. For example, one of these five school districts needed to improve procedures for reconciling physical inventory counts to the subsidiary and accounting records. In addition, two other school districts needed to enhance controls over school district vehicle use through, for example, improved vehicle usage log and fuel efficiency monitoring.

Payroll and Personnel. Audit report findings for 18 school districts addressed the need to improve controls over payroll and personnel. Specifically:

- **Florida Best and Brightest Teacher (FBBT) Scholarship Program**. For 11 school districts, controls over the award of FBBT scholarships were deficient. Because of these deficiencies, awards were not always based on statutory eligibility requirements,[7] resulting in questioned costs ranging from $8,256 to $231,175 for 6 of these school districts.
- **Payroll Processing**. For 9 school districts (including the 5 cited for FBBT Scholarship Program deficiencies and 4 other school districts), procedural enhancements were needed to sufficiently and appropriately evidence employee time worked and leave taken, and to document supervisory review and approval of salary payments.
- **Background Screenings and Searches**. For 9 school districts (including 5 cited for FBBT Scholarship Program control deficiencies and 4 other school districts), procedures for performing background screenings of employees, contracted vendors, or charter school employees and board members with direct student contact were not adequate. Additionally, 1 of the 9 school districts and another school district did not properly conduct background searches for prospective school volunteers as required by State law.[8]
- **Performance Salary Schedule**. For 3 school districts also cited for background screening control deficiencies, the school boards 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.[9] Additionally, another school district's performance

[7] Chapter 2015-232, Specific Appropriation 99A, Laws of Florida.

[8] Section 943.04351, Florida Statutes.

[9] Section 1012.22(1)(c)5., Florida Statutes.

pay salary adjustment amounts for instructional and school administrative employees were not in compliance with State law.[10]

- **Differentiated Pay**. For 2 school districts, the school boards had not established a documented process to identify certain school district personnel entitled to differentiated pay using the factors prescribed in State law.[11]
- **Other**. Other payroll and personnel findings addressed, for example, control deficiencies over monitoring school bus drivers, deficiencies in documenting the qualifications of new hires, noncompliance with severance pay provisions of State law,[12] and the needed enhancement in controls related to accrued leave time and calculations of terminal leave payments.

Expenditures and Purchasing. For six school districts, contract monitoring procedures needed enhancement to ensure that contractual arrangements are evidenced by written contracts and properly approved, the contracts clearly describe the nature and timing of deliverables, the satisfactory receipt of services is documented prior to payments, and payments are consistent with contract terms and conditions. For two of these six school districts and three other school districts, improvements were needed for purchasing cards controls, such as controls for monitoring credit limits, reviewing and approving charges prior to payments, and timely canceling employee card accounts upon an employee's separation from employment. In addition, records at one school district did not clearly demonstrate that the purchase of a bus routing system was made at the lowest price consistent with desired quality.

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

- **Construction Monitoring**. For six school districts, improvements were needed in controls over construction management entity (CME) guaranteed maximum price and subcontractor contract monitoring. For example, the findings and recommendations addressed needed enhancements in controls over general conditions costs and other CME payment components and the selection of subcontractors and documented verification of subcontractor licenses.
- **Acquiring Professional Services**. Two of the six school districts cited for construction monitoring deficiencies also lacked appropriate CME competitive selection procedures, contrary to State law.[13]
- **Restricted Capital Outlay Resources**. Audit reports for two of the six school districts cited for construction monitoring deficiencies and four other school districts noted control deficiencies related to restricted capital outlay resources. Specifically, records at three school districts did not evidence that the districts used proceeds from ad valorem tax levies for purposes consistent with applicable statutory provisions. Contrary to State law,[14] the school districts expended ad valorem tax levy proceeds ranging from $35,732 to $3.2 million for unallowable purposes, such as custodial supplies, groundskeeping, lawn and maintenance, general liability insurance premiums, a sales tax revenue bonds payment, and administrative overhead expenses.

  Additionally, one of the three school districts did not properly advertise the intended use of ad valorem tax proceeds for land purchases, resulting in questioned costs of $130,983. For another school district, impact fee proceeds totaling $17.7 million were not used for the purposes specified

[10] Section 1012.22(1)(c)4.b. and 5.b.(I) and (II), Florida Statutes.

[11] Section 1012.22(1)(c)4.b., Florida Statutes.

[12] Section 215.425, Florida Statutes.

[13] Section 287.055, Florida Statutes.

[14] Section 1011.71, Florida Statutes.

in the county ordinance. For two other school districts, Capital Outlay and Debt Service State proceeds totaling $134,592 and $33,363, respectively, were not expended for projects designated on an approved project priority list in accordance with FDOE requirements.[15]

Adult General Education Classes. General Appropriations Act proviso language[16] required each school district to report enrollment for adult general education programs identified in State law[17] in accordance with FDOE instructional hours reporting procedures.[18] The audit reports for seven school districts included findings related to school district misreporting of 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.

Workforce Development Funds. Three school districts sometimes used workforce development funds for purposes other than those authorized by State law[19] and another school district did not have a spending plan for the use of unspent workforce development funds.

Virtual Instruction Programs. Audit reports for 11 school districts addressed deficiencies in the administration and oversight of the school district virtual instruction program (VIP) and noncompliance with provisions of State law.[20] Specifically:

- **Provider Contracts**. Two school districts did not include all the provisions required by State law in their VIP provider contracts and also excluded other provisions necessary to enhance the contracts. Additionally, 7 other school districts excluded provisions necessary to enhance their VIP provider contracts.
- **Written Policies and Procedures**. Four of the 7 school districts that excluded necessary provisions from their VIP provider contracts also needed to develop and maintain comprehensive, written VIP policies and procedures.
- **VIP Options**. Two of the 7 school districts that excluded necessary provisions from their VIP provider contracts and 1 other school district needed to enhance controls to ensure that the required number of VIP options is offered.
- **Computing Resources**. Three of the 7 school districts that excluded necessary provisions from their VIP provider contracts also needed to enhance procedures for notifying VIP students and their parents about the availability of computing resources and ensure that qualified VIP students are provided free computing resources.
- **Provider Background Screenings**. The two school districts that excluded statutorily required and other necessary provisions from their VIP provider contracts also did not have adequate procedures to ensure that required background screenings for VIP provider employees and contracted personnel were performed.
- **Written Parental Notification**. Two school districts did not timely notify parents regarding student opportunities to participate in a VIP.
- **Student Eligibility**. Procedures at 1 school district needed enhancement to ensure that students met the statutory eligibility criteria[21] to participate in a VIP. This school district also excluded

[15] FDOE, Office of Educational Facilities, publication (2014) *State Requirements for Educational Facilities*, Section 2.1(5).

[16] Chapter 2015-232, Laws of Florida, Specific Appropriation 118.

[17] Section 1004.02(3), Florida Statutes.

[18] FDOE-issued Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

[19] Chapter 2015-232, Laws of Florida, Specific Appropriations 118.

[20] Section 1002.45, Florida Statutes.

[21] Section 1002.455(2), Florida Statutes.

statutorily required and other necessary provisions from their VIP provider contract and did not have adequate procedures to ensure that required background screenings for VIP provider employees and contracted personnel were performed.

- **Student Compulsory Attendance**. Procedures for 1 school district that excluded necessary provisions from its VIP provider contract did not always require documented verification that VIP students complied with compulsory attendance requirements.

Charter Schools. The audit reports for four school districts addressed control deficiencies over the monitoring of charter schools. The findings for three of the four school districts addressed the need for enhanced procedures related to terminated charter schools, including procedures to ensure the timely return of property and unencumbered funds to the school district and completion of audit reports upon closure. The other school district did not have appropriate monitoring procedures to ensure that annual charter school audits were timely completed for consideration during preparation of the district's financial statements.

Direct Support Organizations. Three school districts paid their respective direct support organizations (DSOs) for certain expenditures incurred by the DSOs but not authorized by State law, resulting in questioned costs ranging from $5,275 to $150,000.

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, the lack of timely completed school internal funds audits, the need to improve controls over the financial condition monitoring of a self-insurance plan, insufficient anti-fraud policies, and noncompliance with the State law[22] requiring an additional hour of reading instruction each day for the schools included in the State's 300 lowest-performing elementary schools.

Federal Awards Program Findings

The audit reports for 12 school districts included a total of 19 findings addressing major Federal awards program noncompliance and control deficiencies. These findings addressed the Federal compliance requirements of Allowable Costs and Cost Principles; Eligibility; Special Tests and Provisions; Procurement and Suspension and Debarment. The findings related to Title I, Student Financial Assistance Cluster, Child Nutrition Cluster, Special Education Cluster, and other major Federal awards programs. None of the findings resulted in a material weakness in internal control over compliance related to Federal awards programs. However, we noted that 9 school districts had 16 noncompliance findings that were material to applicable compliance requirement types.

For the 2015-16 fiscal year, 7 school district audit reports had a total of 11 findings that identified Federal awards program questioned costs ranging from $303 to $408,613 and totaling $850,336. In comparison, for the 2014-15 fiscal year, 16 school district audit reports had a total of 18 findings that identified Federal awards program questioned costs ranging from $686 to $23 million and totaling $25.5 million. Questioned costs include costs of goods or services charged to one or more Federal awards programs that are not allowed under the applicable grant terms, not clearly supported by the Federal awards

[22] Section 1011.62(1)(f)2., Florida Statutes.

program's purposes, not documented in the manner prescribed by applicable Federal cost principles or State or school district policies, or not incurred during the grant period. If the applicable grantor disallows questioned costs, a school district may have to repay the costs from non-Federal sources.

FINANCIAL TRENDS

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

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

Table 1
Financial Condition Measure

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

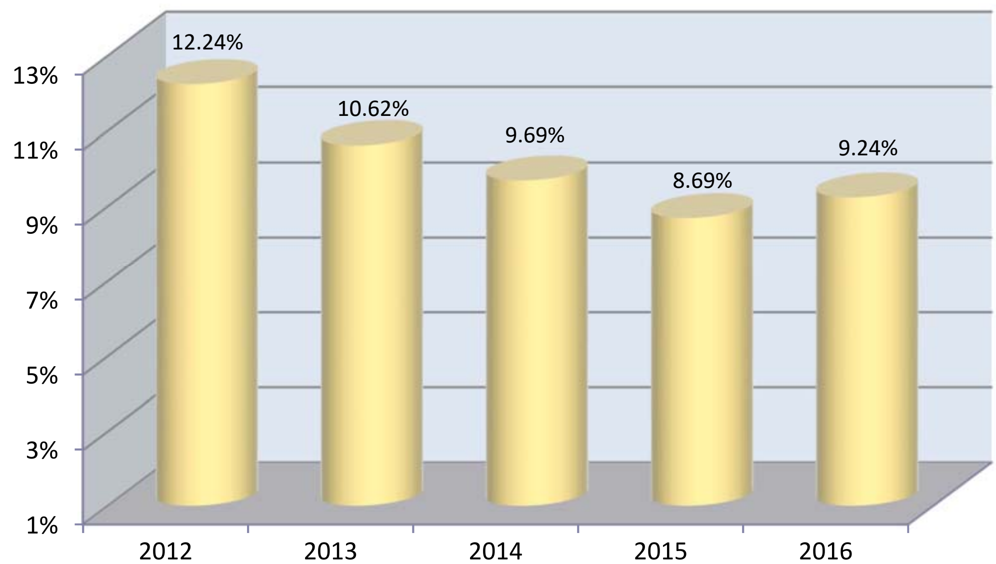
Credit rating agencies generally look more favorably on financial condition ratios of at least 5 percent. Other literature suggests percentages ranging from 5 to 10 percent. However, often the guidance is not clear as to whether the percentage is derived from total fund balance or assigned and unassigned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

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

Financial Condition Trends

Chart 1 shows the average financial condition ratios of the 67 school districts for the fiscal years ended June 30, 2012, through June 30, 2016. As shown in Chart 1, the average financial condition ratio was 9.24 percent at June 30, 2016, which is a slight increase over the average financial condition ratio at June 30, 2015. The financial condition ratio was relatively high for the fiscal year ended June 30, 2012, primarily because school districts received and used Race-to-the-Top and School Improvement grants.

Chart 1
Average Financial Condition Ratios of School Districts
For the Fiscal Years Ended June 30, 2012, Through June 30, 2016

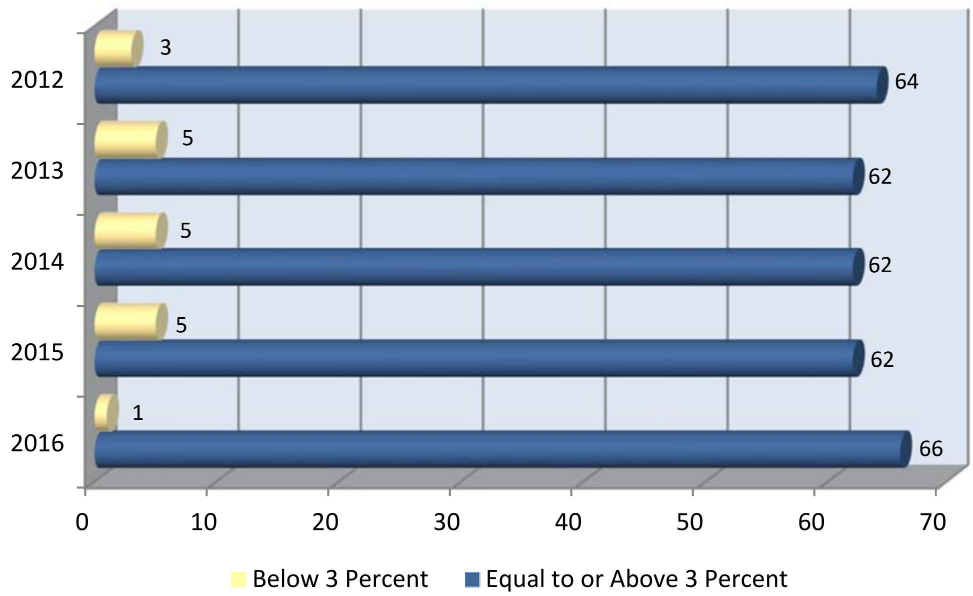


State law[23] requires each school district to maintain a general fund ending fund balance that is sufficient to address normal contingencies. If at any time the financial condition ratio determined from the school district's approved operating budget is projected to fall below 3 percent during the current fiscal year, school district superintendents must notify the Commissioner of Education and respective school board. Chart 2 shows, for the fiscal years ended June 30, 2012, through June 30, 2016, 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.

[23] Section 1011.051, Florida Statutes.

Chart 2
Number of School Districts with Financial Condition Ratios Below 3 Percent and Equal to or Above 3 Percent

For the Fiscal Years Ended June 30, 2012, Through June 30, 2016



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

At June 30, 2016, only the Jefferson County School District had a financial condition ratio below 3 percent. Jefferson County School District's financial condition ratio at June 30, 2016, was negative 0.43 percent and the District's financial condition ratio was also below 3 percent for the past 2 consecutive 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 law[24] 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,[25] 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. In August 2016, the Commissioner of Education declared the Jefferson County School District to be in a state of financial emergency.

[24] Section 1011.051(2), Florida Statutes.

[25] Section 218.503(3), Florida Statutes.

Factors Impacting Financial Condition

As previously discussed, the financial condition ratio for the fiscal year ended June 30, 2012, was significantly impacted by the receipt and use of the Race-to-the-Top and School Improvement grants. Further analyses of school district financial trend data identified other factors that impact the financial condition of school districts and may increase the risk of a weak financial condition. While no single factor is identified as a guaranteed predictor of financial condition, factors such as property values, increasing or declining enrollment, and the size of schools necessitate effective financial management to limit the factors' impact on the school districts' financial condition.

Property Values. Property taxes, which are assessed on property values, are the primary source of local revenues for school districts. According to the Florida Department of Revenue, Statewide property taxable values increased from $1.36 trillion in the 2012 calendar year to $1.77 trillion in the 2016 calendar year, or an increase of 30 percent. Due to this increase, which was partially offset by decreases in levied millage rates, Statewide property tax levies for school district operations increased from $10.44 billion for the 2011-12 fiscal year to $12.33 billion for the 2015-16 fiscal year, or an increase of 18 percent.

Increasing Enrollment. Over the past 5 years, Statewide student enrollment increased 4 percent, from 2,632,614 for the 2011-12 fiscal year to 2,740,302 for the 2015-16 fiscal year. A total of 47 school districts experienced enrollment growth during this 5-year period, including 12 school districts with enrollment growth of more than 5 percent and 1,000 unweighted full-time equivalent (FTE) students, as shown in Table 2. Although these 12 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

2011-12 Fiscal Year to the 2015-16 Fiscal Year

		Unweighted FTE			
Number	**School District**	**2011-12**	**2015-16**	**Increase**	**Percent Increase**
1	St. Johns	31,356	36,240	4,884	15.58%
2	Walton	7,491	8,560	1,069	14.27%
3	Osceola	54,193	61,141	6,948	12.82%
4	Orange	178,847	195,408	16,561	9.26%
5	Lee	82,720	90,062	7,342	8.88%
6	Manatee	44,136	47,644	3,508	7.95%
7	Hillsborough	195,579	208,395	12,816	6.55%
8	Palm Beach	175,084	186,291	11,207	6.40%
9	Bay	25,512	27,125	1,613	6.32%
10	Collier	42,845	45,342	2,497	5.83%
11	Pasco	65,783	69,611	3,828	5.82%
12	Alachua	26,886	28,317	1,431	5.32%

Declining Enrollment. While student enrollment increased in total for school districts from the 2011-12 fiscal year to the 2015-16 fiscal year, 20 school districts experienced enrollment declines during this period. The enrollment declines for the 20 school districts ranged from 9 to 756 unweighted FTE.

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

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

Future Financial Trends Considerations

State Funding. For the 2015-16 fiscal year, the base Florida Education Finance Program (FEFP) allocation was $4,154.45 per weighted FTE student, which represents an increase of $122.68 from the base FEFP allocation of $4,031.77 per weighted FTE student for the 2014-15 fiscal year. Also, based on the 2016-17 fiscal year FEFP final calculation, the base FEFP allocation for the 2016-17 fiscal year increased by $6.26 per weighted FTE from the 2015-16 fiscal year final allocation to $4,160.71. The weighted FTE student enrollment in school districts increased by 39,362, or approximately 1 percent, from the 2014-15 to the 2015-16 school year. Similarly, in the 2016-17 school year, the weighted FTE student enrollment increased by 22,601, or approximately 1 percent, based on the 2016-17 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, 2016, consisted primarily of:

- COPs totaling $10.9 billion.
- Qualified School Construction Bonds (QSCBs) totaling $936 million.
- Qualified Zone Academy Bonds (QZABs) totaling $272 million.
- Build America Bonds (BABs) totaling $97 million.
- School district revenue bonds totaling $756 million.
- General obligation bonds totaling $632 million.
- State Board of Education bonds totaling $200 million.
- Long-term debt notes totaling $94 million.

Generally, school districts extinguish their debt through various pledged resources such as capital outlay millage, discretionary sales surtax, pari-mutuel distributions, and other tax proceeds. As of June 30, 2016, pledged resources were generally sufficient to cover the required debt service by school districts.

The seven school districts that had variable interest rate COPs at June 30, 2016, had entered into a total of 16 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, 2016, total fair values of the interest rate swap agreements for each of the seven school districts ranged from negative $20 million to negative $91 million. However, the interest rate swap agreements are associated with COPs with remaining terms ranging from 2 to 16 years, and the actual benefit or additional costs of the swap agreements generally will not be known until the COPs have been paid off. Depending on the fair value of the swap agreements upon termination, there is a risk that the debt service costs of these school districts may exceed the costs that could have been experienced from regular fixed-rate debt. As of June 30, 2016, each of these seven school districts had sufficient available resources to meet their respective debt service requirements.

School District Trends

Funding Trends. School district governmental funds include the general fund, special revenue funds, debt service funds, and capital projects funds. School districts frequently have fiduciary funds (agency and trust funds) and proprietary funds (primarily internal service funds that account for such activities as self-insurance programs). However, substantially all school district resources are accounted for in the governmental funds. As shown in Table 3, school districts reported revenues of $28.1 billion in the governmental funds for the 2015-16 fiscal year, an increase of $1.2 billion (4.34 percent) from the 2014-15 fiscal year.

Table 3
Statewide Revenues – All Governmental Funds
For the 2014-15 and 2015-16 Fiscal Years

	2014-15		2015-16		Increase	
Governmental Fund Type	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	$20,195,815,836	75.04%	$21,010,531,801	74.82%	$814,715,965	4.03%
Other Funds	6,716,474,232	24.96%	7,070,400,369	25.18%	353,926,137	5.27%
Totals	**$26,912,290,068**	**100.00%**	**$28,080,932,170**	**100.00%**	**$1,168,642,102**	**4.34%**

Table 4 shows, by source, the total governmental fund type revenues reported by school districts for the 2014-15 and 2015-16 fiscal years, and the related increases in these revenues.

Table 4
Statewide Revenues by Source – All Governmental Funds
For the 2014-15 and 2015-16 Fiscal Years

	2014-15		2015-16		Increase	
Source	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	$ 3,218,485,113	11.96%	$ 3,252,052,899	11.58%	$ 33,567,786	1.04%
State	11,064,139,576	41.11%	11,361,391,438	40.46%	297,251,862	2.69%
Local	12,629,665,379	46.93%	13,467,487,833	47.96%	837,822,454	6.63%
Totals	**$26,912,290,068**	**100.00%**	**$28,080,932,170**	**100.00%**	**$1,168,642,102**	**4.34%**

The increase in total revenues for the 2015-16 fiscal year consisted of increases in each of the three revenue sources. The largest revenue increase of $837.8 million was in local revenues, which was due primarily to increases in property values. The increased property values generated additional revenues from the required local effort, capital outlay, and discretionary local effort millage levies of $426 million, $181 million, and $89 million, respectively. Additionally, the local sales tax and impact fee collections increased by $67 million and $16 million, respectively, from the 2014-15 fiscal year, which contributed to the total local revenue increase. The increase in State revenues consisted of increases of $176 million in State FEFP revenues and $121 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 2014-15 and 2015-16 fiscal years, and the related increase in these revenues.

Table 5
Statewide General Fund Revenues by Source

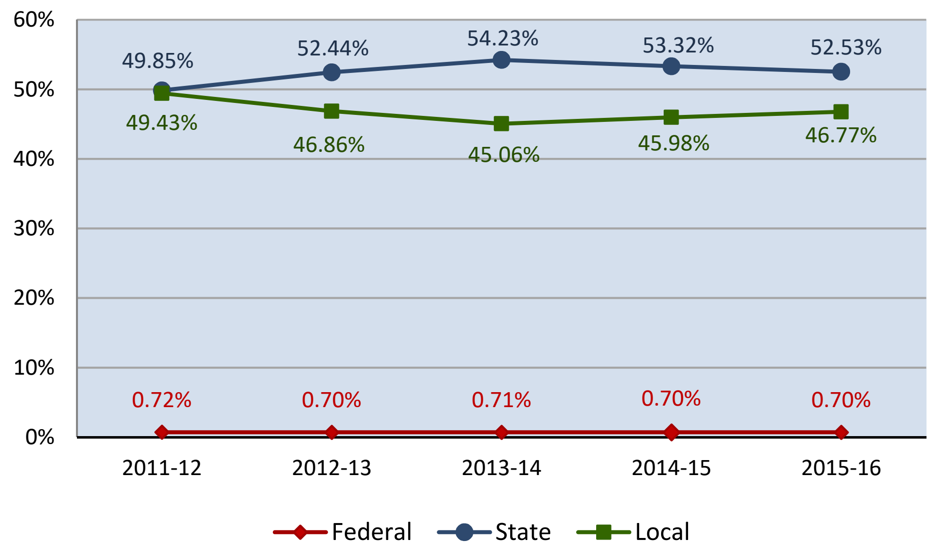
For the 2014-15 and 2015-16 Fiscal Years

	2014-15		2015-16		Increase	
Source	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	$ 141,396,137	0.70%	$ 147,117,593	0.70%	$ 5,721,456	4.05%
State	10,767,775,115	53.32%	11,037,817,311	52.53%	270,042,196	2.51%
Local	9,286,644,584	45.98%	9,825,596,897	46.77%	538,952,313	5.80%
Totals	**$20,195,815,836**	**100.00%**	**$21,010,531,801**	**100.00%**	**$814,715,965**	**4.03%**

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 2011-12 through 2015-16 fiscal years.

Chart 3
Percentage of Statewide General Fund Revenues
From Federal, State, and Local Sources

For the 2011-12 Through 2015-16 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 $15.2 billion for the 2015-16 fiscal year, and consisted of $7.6 billion in State revenues and $7.6 billion in local revenues. In addition to the $7.6 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 $7.6 billion in local revenues for funding operations as part of the FEFP, the school districts reported $5.9 billion in other local revenues. These local revenues included, but were not limited to, $2.3 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; $1.2 billion from discretionary local effort millage levies for operations; $301 million from special voter levies; and $61 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-four school districts reported local sales tax revenue totaling $624 million for the 2015-16 fiscal year. The same number of school districts reported local sales tax revenues totaling $557 million for the 2014-15 fiscal year. Twenty-seven school districts reported impact fee revenues totaling $267 million for the 2015-16 fiscal year, while 26 school districts reported impact fee revenues totaling $251 million for the 2014-15 fiscal year. The impact fees were in place during the 2015-16 fiscal year for 8 school districts, but the fee collections remained suspended.

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

Debt Issuance Proceeds. The issuance of long-term debt is a significant source of capital funding for school districts. Debt issuance proceeds (net of refundings) and capital lease proceeds for the 2015-16 fiscal year totaled $742 million as compared to $391 million for the 2014-15 fiscal year. Within the governmental funds, debt service funds account for resources restricted for items such as the payment of debt and capital projects funds typically account for the acquisition of real property and the construction, renovation, remodeling, and maintenance of school district facilities. These resources are generally not available to finance the operating activities of a school district.

State Capital Outlay Appropriations. Historically, certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,[26] constituted significant State funding for school district new construction and facilities maintenance projects. These statutory appropriations included, but were not limited to, PECO, Classrooms First, Classrooms for Kids, and Capital Outlay and Debt Service (CO&DS), which were predominantly funded using proceeds from the gross receipts and motor vehicle licensing taxes established by the State Constitution.[27] As shown in

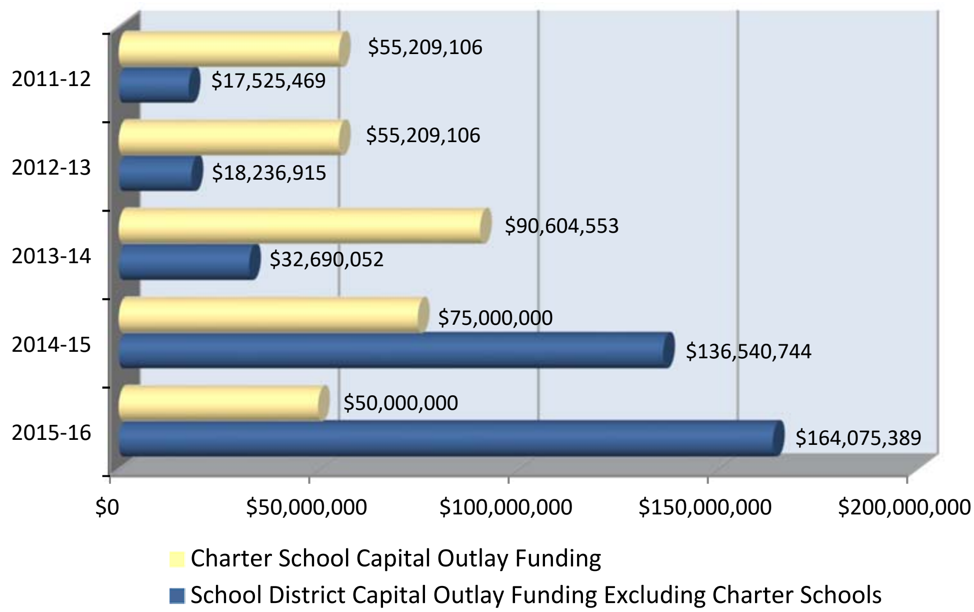
[26] Section 1013.65, Florida Statutes.

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

Chart 4, State capital outlay appropriations to school districts,[28] excluding funding to charter schools, increased from $17.5 million for the 2011-12 fiscal year to $164.1 million for the 2015-16 fiscal year. During that same 5-year period, capital outlay funding for charter schools ranged from a low of $50 million for the 2015-16 fiscal year to a high of $90.6 million for the 2013-14 fiscal year.

Chart 4
State Capital Outlay Appropriations

For the 2011-12 Through 2015-16 Fiscal Years



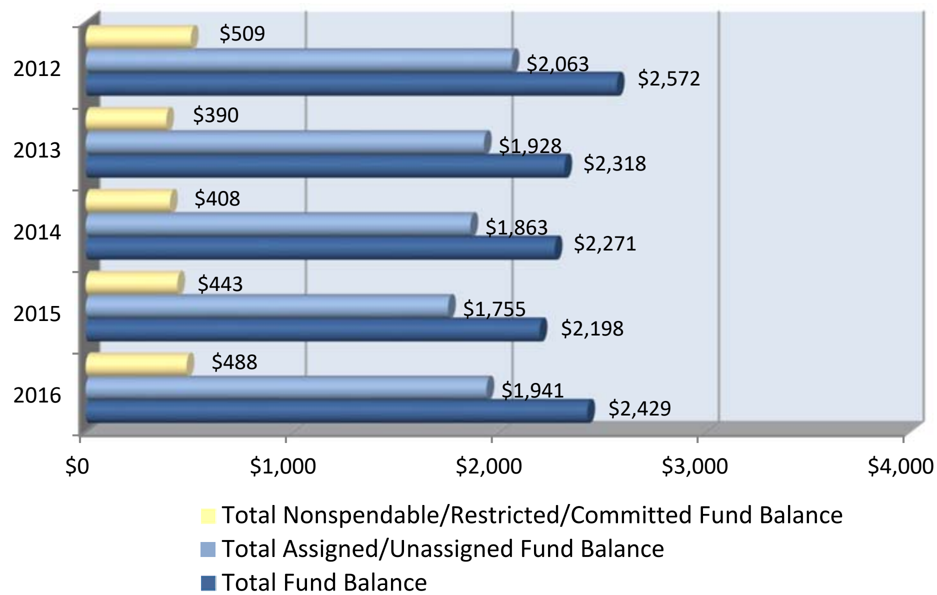
The $27.5 million increase in State capital outlay appropriations to school districts for the 2015-16 fiscal year was due, in part, to PECO Special Facilities appropriations, which increased from $0 during the 2012-13 fiscal year to $80 million during the 2015-16 fiscal year.

<u>Fund Balance Trends</u>. As shown in Chart 5, the total fund balances of the school district general funds (operating funds) for the fiscal years ended June 30, 2012, through June 30, 2015, steadily declined from $2.6 billion to $2.2 billion due, in part, to increases in salary and benefit costs at certain school districts. However, over the 2015-16 fiscal year, the total general fund balances increased to $2.4 billion mainly due to increases in revenues in State FEFP and local property tax levied for operational purposes.

[28] 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, 2012, Through June 30, 2016
(in Millions)



The total assigned and unassigned portions of the general fund balance represent the amount that may be used with the most flexibility for emergencies and unforeseen situations. During the 5-year period shown in Chart 5, the total assigned and unassigned portions of the general fund balance remained relatively constant, ranging from a low of 79.8 percent at June 30, 2015, to a high of 83.2 percent at June 30, 2013.

OTHER MATTERS OF INTEREST

Findings Repeated from Previous Audit Reports

State law[29] 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 252 findings included in the 2015-16 fiscal year audit reports reviewed, 46 (18 percent) were also included in the two preceding financial or operational audit reports. For the 2014-15 fiscal year, 67 findings (21 percent) had also been included in the two preceding financial or operational audit reports.

On July 28, 2017, pursuant to State law, we notified the Legislative Auditing Committee of the 24 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 31 district school boards included in our notification for the 2014-15 year.

[29] Sections 11.45(7)(j), and 218.39(8), Florida Statutes.

School District Budget Transparency

State law[30] 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.

On June 27, 2017, pursuant to State law,[31] we notified the President of the Senate, the Speaker of the House of Representatives, and the Florida Department of Financial Services of the one school district, Washington County School District, that was reported for noncompliance with the budget transparency requirements.

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, 2016, for the 47 school districts audited by our Office and the 20 school districts audited by other independent CPAs.

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

AUTHORITY

Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of significant findings and financial trends identified in district school board audit reports for the fiscal year ended June 30, 2016.

Sherrill F. Norman, CPA
Auditor General

[30] Section 1011.035, Florida Statutes.

[31] Section 11.45(7)(i), Florida Statutes.