

**REVIEW OF
DISTRICT SCHOOL BOARD,
CHARTER SCHOOL, AND
CHARTER TECHNICAL CAREER CENTER
AUDIT REPORTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2017**

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



Sherrill F. Norman, CPA
Auditor General

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REVIEW OF DISTRICT SCHOOL BOARD, CHARTER SCHOOL, AND CHARTER TECHNICAL CAREER CENTER AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SUMMARY

State law¹ requires all charter schools and charter technical career centers (hereafter collectively referred to as charter schools) and certain district school boards to provide for annual financial audits conducted by independent certified public accountants (CPAs). Audit reports are required to be filed with us within 45 days after delivery of the audit report to the charter school or district school board's governing body, but no later than 9 months after the end of the fiscal year.²

During the fiscal year ended June 30, 2017, there were 67 district school boards and 650 charter schools in operation in the State of Florida. Pursuant to State law,³ we reviewed the 2016-17 fiscal year audit reports filed with us through May 31, 2018, including audit reports for 20 district school boards⁴ and 629 charter schools, and determined that the information was generally presented in accordance with generally accepted accounting principles (GAAP) and the audit reports generally complied with generally accepted government auditing standards (GAGAS) and Rules of the Auditor General.⁵ However, we noted the following instances in which audit reports were not filed, not filed timely, or not prepared in accordance with all applicable requirements:

Finding 1: Twenty charter schools, including 18 that closed or merged during or subsequent to the 2016-17 fiscal year, did not file audit reports with us. Additionally, 1 district school board and 6 charter schools filed audit reports with us after the March 31, 2018, deadline. Also, although the audit reports for 19 district school boards and 624 charter schools were filed with us by the March 31, 2018, deadline, the reports for 2 of the 19 district school boards and 28 of the 624 charter schools were not filed within 45 days of the audit report delivery to the entity's governing body.

Finding 2: Our completeness reviews of the audit reports disclosed instances of noncompliance with certain requirements, primarily related to the independent auditor's reports and financial statement note disclosures.

Finding 3: Our comprehensive reviews of 20 district school board audit reports and selected charter school audit reports disclosed certain instances of noncompliance with GAAP, GAGAS, and Federal Uniform Guidance⁶ requirements.

¹ Section 218.39(1), Florida Statutes.

² Section 218.39(7), Florida Statutes.

³ Section 11.45(7)(b), Florida Statutes.

⁴ Of the 67 district school boards, 20 were subject to 2016-17 fiscal year financial audits conducted by CPAs other than the Auditor General.

⁵ Chapters 10.800 and 10.850, Rules of the Auditor General.

⁶ Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

BACKGROUND

State law⁷ requires annual financial audits of each charter school and charter technical career center (hereafter collectively referred to as charter schools) and district school board. State law⁸ defines a financial audit as an examination of financial statements in order to express an opinion on the fairness with which the statements are presented in conformity with generally accepted accounting principles (GAAP) and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements. Financial audits must be conducted in accordance with auditing standards generally accepted in the United States and generally accepted government auditing standards (*Government Auditing Standards* issued by the Comptroller General of the United States).⁹

State law establishes several requirements that independent certified public accountants (CPAs) must follow when conducting financial audits of charter schools and district school boards. For example, the CPAs performing these financial audits must:

- Prepare a management letter that is included as a part of the financial audit report.¹⁰
- Discuss with the appropriate entity official(s) all findings that will be included in the financial audit report.¹¹
- Conduct the audits in accordance with the Rules of the Auditor General.¹²

Additionally, State law¹³ requires the appropriate entity officer to provide a written statement of explanation or rebuttal concerning the audit findings, including corrective action to be taken. The officer's written statement is to be filed with the entity's governing body within 30 days after the delivery of the findings.

To assist auditors in complying with the requirements of generally accepted government auditing standards (GAGAS), and applicable laws, rules, and regulations, and pursuant to State law,¹⁴ we developed rules¹⁵ and audit report review guidelines that provide, among other things, procedural guidance for CPAs to follow to ensure compliance with financial audit requirements. These rules require the scope of a financial audit to include: an examination of the financial statements in order to express an opinion on them; an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements; an examination of any additional financial information necessary to comply with GAAP; and, when applicable, the additional activities necessary to determine compliance with Federal Uniform Guidance. The rules were adopted in consultation with the Board of Accountancy, and the rules and guidelines are made available on our Web site.

⁷ Sections 11.45(2)(d) and 218.39(1), Florida Statutes.

⁸ Section 218.31(17), Florida Statutes.

⁹ *Government Auditing Standards* incorporate by reference the auditing standards generally accepted in the United States (i.e., *American Institute of Certified Public Accountants Statements on Auditing Standards*).

¹⁰ Section 218.39(4), Florida Statutes.

¹¹ Section 218.39(5), Florida Statutes.

¹² Section 218.39(7), Florida Statutes.

¹³ Section 218.39(6), Florida Statutes.

¹⁴ Section 11.45(8), Florida Statutes.

¹⁵ Chapters 10.800 and 10.850, Rules of the Auditor General.

FINDINGS AND RECOMMENDATIONS

Finding 1: Noncompliance – Audit Report Filing Requirements

State law¹⁶ requires the district school boards and charter schools to file with us the audit report and a written response to any report or management letter findings within 45 days after delivery of the audit report to the entity's governing body, but no later than 9 months after the end of the fiscal year. For the 2016-17 fiscal year, 20 district school boards and 650 charter schools were required to file financial audit reports with us. Table 1 quantifies, as of May 31, 2018, the number of district school boards and charter schools that did not comply with the audit report filing requirements for the 2016-17 fiscal year.

Table 1
Noncompliance with Audit Report Filing Requirements

Description of Noncompliance	District School Boards	Charter Schools
Audit required, but report not filed	-	20
Audit report filed more than 9 months after June 30, 2017	1	6
Audit report filed more than 45-days after the report was delivered to the entity's governing body	2	28

Regarding the noncompliance shown in Table 1:

- 20 of the 650 charter schools in operation during the 2016-17 fiscal year did not file the required audit report with us. Of these 20 charter schools, 18 closed or merged during or subsequent to the 2016-17 fiscal year. A listing of the 20 charter schools is included as **EXHIBIT A** to this report.
- 1 district school board and 6 charter schools did not file the required audit report with us by March 31, 2018 (i.e., 9 months after the June 30, 2017, fiscal year end). A listing of these entities that shows the number of days each entity's audit report was filed late is included as **EXHIBIT B** to this report.
- Although audit reports for 19 district school boards and 624 charter schools were filed with us by the March 31, 2018 deadline, the reports for 2 of the 19 district school boards and 28 of the 624 charter schools were filed 53 to 191 days after the delivery of the audit report to the entity's governing body. A listing of these entities that shows the number of days each entity's audit report was filed late is included as **EXHIBIT C** to this report.

District school boards and charter schools that fail to provide for financial audits may be subject to consequences prescribed by State law.¹⁷ Timely audits are necessary to ensure that management and those charged with governance are promptly informed of control deficiencies and financial-related noncompliance. Additionally, timely filed audit reports provide for timely review by appropriate Federal and State oversight agencies.

Recommendation: Management of the district school boards and charter schools should ensure that audits are timely completed and audit reports are filed in accordance with State law.

¹⁶ Section 218.39(7), Florida Statutes.

¹⁷ Section 11.40(2), Florida Statutes.

Finding 2: Completeness Reviews

We performed completeness reviews of all 20 district school board and 629 charter school audit reports filed with us as of May 31, 2018, to determine whether the audit reports included the financial statements, note disclosures, reports, and other items required by GAAP and the Rules of the Auditor General, and the extent to which the audit reports complied, for selected significant matters, with GAAP, GAGAS, and Rules of the Auditor General. State law¹⁸ requires us to request from the district school boards and charter schools any significant items omitted from audit reports. The district school boards and charter schools are to provide us with the requested items no later than 45 days after the date of our request.

Most of the audit reports subjected to our completeness reviews included audited financial statements and the required notes thereto, the required independent auditor's reports on the financial statements and on internal control over financial reporting and compliance (compliance report), and the independent accountant's report of district school board compliance with investment requirements in State law, as applicable. Additionally, most of the reports we reviewed were generally presented in accordance with GAAP, GAGAS, and Rules of the Auditor General. However, we noted certain instances of noncompliance, many of which related to the independent auditor's reports and financial statement note disclosures. For example:

- Independent auditor's reports on the financial statements for 12 (39 percent) of the 31 applicable charter school audit reports we reviewed did not disclose the auditor's responsibility for supplementary information presented.
- The independent auditors for 113 (19 percent) of the 598 applicable charter school audit reports we reviewed opined on opinion units (i.e., aggregate remaining fund information) that did not exist on the financial statements.
- Financial statement note disclosures for 150 (25 percent) of the 594 applicable charter school audit reports we reviewed did not disclose whether the amounts of settlements exceeded insurance coverage for each of the past 3 years and, if applicable, the excess amounts.

EXHIBIT D to this report provides, by entity type, a summary of the deficiencies disclosed by our completeness reviews along with comparative prior year information.

We sent letters to 3 district school board requesting significant items that had been omitted from audit reports and concurrently provided copies of the request letters to the respective entity auditors. The items requested from these district school boards related to missing independent accountant's reports of district school board compliance with the investment requirements in State law.¹⁹

External parties rely on audits to provide independent assessments of the accuracy and completeness of the financial statements, as well as to provide a means for evaluating the effectiveness of an entity's internal controls and the extent to which an entity has complied with applicable laws, rules, regulations, contractual requirements, and bond covenants. Accordingly, it is important that the various components of the audit report, such as the independent auditor's reports and management letter, financial

¹⁸ Section 11.45(7)(b), Florida Statutes.

¹⁹ Section 218.415, Florida Statutes.

statements, and notes to financial statements, be presented in accordance with GAAP, GAGAS, and the Rules of the Auditor General so that the reader can form appropriate conclusions relating to the audited entity.

Recommendation: District school boards, charter schools, and their auditors should ensure that audit reports contain all the required information presented in accordance with applicable requirements.

Finding 3: Comprehensive Reviews

In addition to completeness reviews, we performed comprehensive reviews of selected audit reports for the 2016-17 fiscal year and noted certain errors and deficiencies. Specifically, we reviewed:

- 80 (20 district school board and 60 charter school) audit reports to determine the extent of compliance, on a comprehensive basis, with GAAP, GAGAS, and Rules of the Auditor General, and noted deficiencies pertaining to the auditor's report on the financial statements, financial statements, and note disclosures (other than pension plans and other postemployment benefits plan disclosures), and required supplementary information (RSI).

For example, the notes to the financial statements for 8 (33 percent) of the 24 applicable charter school audit reports did not disclose that the government-wide financial statements reported only nonfiduciary activities and that fiduciary activities were reported only in the fund financial statements.

- 50 (20 district school board and 30 charter school) audit reports with pension plan note disclosures to determine the extent of compliance with GAAP and noted some deficiencies. For example, regarding the defined benefit pension plan discount rate, 3 (10 percent) of the 29 applicable charter school reports did not disclose the periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied in determining the discount rate.
- 25 (20 district school board and 5 charter school) audit reports with other postemployment benefits (OPEB) plan note disclosures and RSI to determine the extent of compliance with GAAP. For example, for 6 (30 percent) of the 20 district school boards and all 5 applicable charter schools (100 percent), the notes did not disclose required contributions of plan members, either as a rate per member or a percentage of covered payroll.

EXHIBIT E to this report provides a summary, by entity type, of the deficiencies disclosed by our comprehensive reviews. Because of the limited number of reports reviewed for each entity type, **EXHIBIT E** does not present comparative prior year information.

Recommendation: Management of district school boards and charter schools should ensure that financial statement note disclosures, including pension plan and OPEB plan disclosures, and RSI are presented in accordance with GAAP.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this project were to determine whether the district school board and charter school audit reports filed with us for our review:

- Complied with generally accepted governmental auditing standards (GAGAS), generally accepted accounting principles (GAAP), and Rules of the Auditor General.²⁰
- Were prepared by independent certified public accountants (CPAs) properly licensed by the Florida Board of Accountancy.

The scope of this project included a review of the financial audit reports prepared by independent CPAs and filed with us by May 31, 2018, for 20 district school boards and 629 charter schools for the fiscal year ended June 30, 2017.

Our review of the audit reports was conducted in accordance with applicable GAGAS. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

Our review was necessarily limited to the contents of the audit reports filed with us and did not extend to an examination of the CPAs' working papers or a determination of whether the auditors followed all GAGAS in the actual conduct of the audits. Because our review was limited to the contents of the audit reports provided to us, the review cannot be used as the basis for determining the extent of an entity's compliance with applicable laws, rules, regulations, charters, contractual requirements, or bond covenants. Likewise, our review would not disclose whether the auditor reported all instances of noncompliance or reportable internal control deficiencies noted during the audit, or whether certain required financial disclosures were completely omitted from the audit report.

To assist with the conduct of our review, we established a completeness review checklist and various comprehensive review checklists with evaluation criteria from our rules and report review guidelines (as discussed in the **BACKGROUND** section of this report). Due to the number of reports included in this review, we applied the comprehensive review checklists to selected district school board and charter school audit reports. Specifically, for the district school board and charter school audit reports filed with us through May 31, 2018, we completed:

- Completeness review checklists for all 20 district school board and 629 charter school audit reports.
- Comprehensive review checklists for:
 - The financial statements for the 20 district school board and 60 selected charter school audit reports.

²⁰ Chapters 10.800 and 10.850, Rules of the Auditor General.

- Financial statement note disclosures (other than pension plan and other postemployment benefits (OPEB) plan disclosures) for the 20 district school board and 60 selected charter school audit reports.
- Pension plan note disclosures for the 20 district school board audit reports and 30 selected charter school audit reports.
- OPEB plan note disclosures for the 20 district school board audit reports and the 5 applicable charter school audit reports.
- Federal Uniform Guidance²¹ reporting requirements for the 20 district school board audit reports and the 11 applicable charter school audit reports.

AUTHORITY

Section 11.45(7)(b), Florida Statutes, requires the Auditor General to review, in consultation with the Florida Board of Accountancy, all district school board, charter school, and charter technical career center financial audit reports prepared by independent certified public accountants (CPAs) and filed pursuant to Section 218.39, Florida Statutes. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our review of district school board, charter school, and charter technical career center audit reports prepared by independent CPAs for the fiscal year ended June 30, 2017.



Sherrill F. Norman, CPA
Auditor General

²¹ Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

EXHIBIT A

CHARTER SCHOOL 2016-17 FISCAL YEAR AUDIT REPORTS NOT FILED AS OF MAY 31, 2018

Charter School

1	Ami Kids Crossroads
2	Boca Raton Charter School ^a
3	First Coast Technical College ^a
4	Florida Futures Academy South
5	Florida Virtual Academy at Palm Beach County ^a
6	Galloway Academy ^a
7	Henry McNeal Turner Learning Academy ^a
8	Lakeside Academy ^a
9	Learning Path Academy ^a
10	Orange Park Performing Arts Academy ^a
11	Paramount Charter School ^a
12	Pathways Academy K-8 Center ^a
13	Pinellas Westcoast Academy High School ^a
14	Richard Allen Leadership Academy ^a
15	Riviera Beach Maritime Academy ^a
16	University Preparatory Academy ^a
17	Valor Academy of Leadership High School ^a
18	Valor Academy of Leadership Middle School ^a
19	Virtue Arts and Science Academy High School ^a
20	Virtue Arts and Science Academy Middle School ^a

^a School closed or merged during or subsequent to the 2016-17 fiscal year (a total of 18 charter schools).

EXHIBIT B

DISTRICT SCHOOL BOARD AND CHARTER SCHOOL 2016-17 FISCAL YEAR AUDIT REPORTS FILED AFTER MARCH 31, 2018

District School Board		Days Filed Late
1	Duval County District School Board	11
Charter School		
1	Alpha International Academy	30
2	Central Charter School	30
3	Coral Springs Charter School	9
4	Harlem Heights Community Charter	11
5	Seagull Academy for Independent Living	11
6	South Broward Montessori Charter School	19
<u>7</u>	Total Audit Reports Filed after March 31, 2018	

EXHIBIT C

DISTRICT SCHOOL BOARD AND CHARTER SCHOOL 2016-17 FISCAL YEAR AUDIT REPORTS FILED MORE THAN 45 DAYS AFTER REPORT WAS DELIVERED TO THE ENTITY'S GOVERNING BODY

		Number of Days Audit Report	
		Filed After Delivery to Entity's Governing Body	Filed Late
District School Board			
1	Miami Dade County District School Board	64	19
2	Polk County District School Board	64	19
Charter School			
1	Academy of Environmental Science	83	38
2	Alpha Charter School of Excellence	131	86
3	Cape Coral Charter School Authority	64	19
4	Clark Advanced Learning Center	74	29
5	Eagles' Nest Charter Academy	131	86
6	Eagles' Nest Middle Charter School	131	86
7	Ed Venture Charter School	131	86
8	Everglades Preparatory Academy - Palm Beach	131	86
9	Florida Southwestern Collegiate High School - Charlotte Campus	57	12
10	Florida Southwestern Collegiate High School - Lee Campus	83	38
11	Florida State University School	68	23
12	Glades Academy Elementary School	131	86
13	International School of Broward	56	11
14	Island Village Montessori Charter School	131	86
15	Lucious and Emma Nixon Academy	133	88
16	Mater Brighton Lakes Academy	63	18
17	New Dimensions High School	62	17
18	New Life Charter Academy	131	86
19	Oasis Preparatory Academy Charter	54	9
20	Ocali Charter Middle School	168	123
21	Palm Beach Maritime Academy High School	64	19
22	Panacea Prep Charter School	131	86
23	Rise Academy School of Science and Technology	131	86
24	Sarasota Military Academy Prep	53	8
25	Somerset College Preparatory Academy	61	16
26	Suncoast School for Innovative Studies	131	86
27	Toussaint L'Ouverture High School for Arts and Social Justice	133	88
28	Wakulla's Charter School of Arts, Science and Technology	191	146
30	Total Number of Audit Reports Not Filed Within 45 Days After the Report was Delivered to the Entity's Governing Body (Reports were Filed by March 31, 2018)		

EXHIBIT D

SUMMARY OF DEFICIENCIES NOTED DURING COMPLETENESS REVIEWS OF 2016-17 FISCAL YEAR AUDIT REPORTS

Description of Deficiencies	District School Board Audit Reports ^a				Charter School Audit Reports ^b			
	Number of Reports to Which Criteria Applied	Number of Reports with Deficiencies	Percent	Prior Fiscal Year Percent	Number of Reports to Which Criteria Applied	Number of Reports with Deficiencies	Percent	Prior Fiscal Year Percent
Auditor's Report on the Financial Statements:								
The auditor opined on opinion units that did not exist on the financial statements.	20	-	-	-	598	113	19	26
Introductory paragraph of the report did not correctly identify the individual opinion units.	20	-	-	-	598	113	19	26
The report did not disclose the auditor's responsibility for supplementary information that was presented.	20	-	-	-	31	12	39	52
Notes to Financial Statements:								
The notes did not describe the types of transactions included in program revenues.	20	1	5	-	597	137	23	8
The notes did not disclose whether the amounts of settlements exceeded insurance coverage for each of the past 3 years and, if applicable, the excess amounts.	20	3	15	5	594	150	25	20
The notes did not disclose the purposes for interfund balances.	20	-	-	-	344	60	17	7
The notes did not disclose a general description of the principal purposes of the school's interfund transfers.	20	-	-	-	310	16	5	9
The notes did not identify the governmental funds typically used to liquidate long-term liabilities.	20	1	5	-	161	46	29	35
The notes did not disclose that the fiduciary funds are reported on the accrual basis of accounting.	20	1	5	15	155	57	37	45
When the charter school contributed to one or more defined contribution plans, the notes to the financial statements did not disclose the name of the plan, identification of the PERS or other entity that administers the plan, and identification of the plan as a defined contribution plan.	20	-	-	5	54	3	6	11
Independent Accountant's Report:								
The audit report excluded an opinion of whether the district school board complied with investment provisions of Section 218.415, Florida Statutes.	20	3	15	15	NA	NA	NA	NA

^a A total of 20 district school board audit reports were included in our completeness review.

^b A total of 629 charter school audit reports were included in our completeness review.

NA - Criterion not applicable to charter schools.

EXHIBIT E

SUMMARY OF DEFICIENCIES NOTED DURING COMPREHENSIVE REVIEWS OF 2016-17 FISCAL YEAR AUDIT REPORTS

Description of Deficiencies	District School Board Audit Reports ^a			Charter School Audit Reports ^a		
	Number of Reports to Which Criteria Applied	Number of Reports with Deficiencies	Percent	Number of Reports to Which Criteria Applied	Number of Reports with Deficiencies	Percent
Notes to Financial Statements (Other than Pension Plan and Other Postemployment Benefits (OPEB) Plan Disclosures): The notes did not disclose that the government-wide financial statements reported only nonfiduciary activities and that fiduciary activities are reported only in the fund financial statements.	20	-	-	24	8	33
The notes did not include, in the notes to the financial statements, a description of how separate financial statements for the individual component units may be obtained.	20	3	15	-	-	-
The notes did not disclose the nature and extent of the restrictions for restricted cash shown on the balance sheet or statement of net position	7	6	86	76	-	-
Pension Plan Disclosures: Regarding the defined benefit pension plan discount rate, the notes did not disclose the periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied in determining the discount rate.	20	-	-	29	3	10
The notes did not disclose certain assumptions about the discount rate: Assumed asset allocation of the plan's portfolio, the long-term expected real rate of return (rate of return without inflation) for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means.	20	1	5	29	5	17
The notes did not disclose a schedule of the net amount of deferred inflows or deferred outflows of resources to be recognized as future period pension expense for each of the subsequent 5 years and in aggregate thereafter for the defined benefit pension plan.	20	-	-	29	3	10
OPEB Plan Financial Statement Note Disclosures: The notes did not disclose required contributions of plan members, either as a rate per member or a percentage of covered payroll.	20	6	30	5	5	100
The notes did not disclose a brief description of the types of benefits and the authority under which the provision benefits are established or may be amended	20	-	-	5	3	60

^a The **OBJECTIVES, SCOPE, AND METHODOLOGY SECTION** of this report identifies the number of entities we selected for review.