

**REVIEW OF
DISTRICT SCHOOL BOARD,
CHARTER SCHOOL, AND
CHARTER TECHNICAL CAREER CENTER
AUDIT REPORTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2018**

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



Sherrill F. Norman, CPA
Auditor General

The team leader was Walter K. Cunningham, CPA, and the review was supervised by Derek H. Noonan, CPA.

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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, 2018

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, 2018, there were 67 district school boards and 648 charter schools in operation in the State of Florida. Pursuant to State law,³ we reviewed the 2017-18 fiscal year audit reports filed with us through May 31, 2019, including audit reports for 20 district school boards⁴ and 644 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: Four charter schools that closed during the 2017-18 fiscal year did not file audit reports with us. In addition, 1 district school board and 2 charter schools did not file the required audit report with us within 45 days after delivery of the audit report to the entity's governing body and by the March 31, 2019, deadline. Also, although the audit reports for 6 district school boards and 47 charter schools were filed with us by the March 31, 2019, deadline, the reports 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 2017-18 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 officials 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 that 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 or 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 2017-18 fiscal year, 20 district school boards and 648 charter schools were required to file financial audit reports with us. Table 1 quantifies, as of May 31, 2019, the number of district school boards and charter schools that did not comply with the audit report submittal requirements for the 2017-18 fiscal year.

Table 1
Noncompliance with Audit Report Filing Requirements

Noncompliance Type	District School Boards	Charter Schools
Audit required but report not filed	-	4
Audit report filed more than 45 days after the report was delivered to the entity's governing body and after March 31, 2019	1	2
Audit report filed by March 31, 2019, but more than 45 days after the report was delivered to the entity's governing body	6	47

Regarding the noncompliance shown in Table 1:

- 4 of the 648 charter schools in operation during the 2017-18 fiscal year did not file the required audit report with us. All 4 of these charter schools closed during the 2017-18 fiscal year. A listing of the 4 charter schools is included as **EXHIBIT A** to this report.
- 1 district school board and 2 charter schools did not file the required audit report with us within 45 days after delivery of the audit report to the entity's governing body and by March 31, 2019 (i.e., 9 months after the June 30, 2018, 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 642 charter schools were filed with us by the March 31, 2019, deadline, the reports for 6 of the 19 district school boards and 47 of the 642 charter schools were filed 52 to 199 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.

¹⁶ Section 218.39(7), Florida Statutes.

¹⁷ Section 11.40(2), Florida Statutes.

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.

Finding 2: Completeness Reviews

We performed completeness reviews of all 20 district school board and 644 charter school audit reports filed with us as of May 31, 2019, 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 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 independent auditor's reports and financial statement note disclosures. For example:

- Independent auditor's reports on the financial statements for 74 (66 percent) of the 112 applicable charter school audit reports we reviewed did not address the auditor's responsibility for supplementary information presented.
- The independent auditors for 127 (21 percent) of the 614 applicable charter school audit reports we reviewed did not opine on all opinion units or opined on opinion units (i.e., aggregate remaining fund information) that did not exist on the financial statements. Consequently, these audit opinions did not correctly identify the opinion units upon which the auditor should have opined.
- Financial statement note disclosures for 71 (12 percent) of the 579 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 7 district school boards and 27 charter schools 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 and charter schools related to, for example, missing independent accountant's reports of district school board compliance with the investment requirements in State law¹⁹ and missing summary schedules of prior audit findings for Federal awards.

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

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

¹⁹ Section 218.415, Florida Statutes.

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 statements, and notes to financial statements, be presented in accordance with GAAP, GAGAS, and 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 2017-18 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 (44 percent) of the 18 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, 7 (26 percent) of the 27 applicable charter school reports did not disclose the 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 were presented as arithmetic or geometric means.
- 31 (20 district school board and 11 charter school) audit reports with other postemployment benefit (OPEB) plan note disclosures and RSI to determine the extent of compliance with GAAP and identified some noncompliance. For example, for 2 (10 percent) of the 20 district school boards and 5 (46%) of the 11 applicable charter schools, the notes to the financial statements did not disclose the amount of OPEB expense recognized by the employer in the reporting period.
- 37 (20 district school board and 17 charter school) audit reports to determine the extent of compliance with Federal Uniform Guidance reporting requirements and noted some noncompliance. For example, 3 of the 20 district school board audit reports (15%) did not include a summary schedule of prior audit findings, contrary to Federal Uniform Guidance requirements.

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, 2019, for 20 district school boards and 644 charter schools for the fiscal year ended June 30, 2018.

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 filed with 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, 2019, we completed:

- Completeness review checklists for all 20 district school board and 644 charter school audit reports.
- Comprehensive review checklists for:
 - The financial statements for the 20 district school board and 60 selected charter school audit reports.
 - Financial statement note disclosures (other than pension plan and other postemployment benefit (OPEB) plan disclosures) 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.

- 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 11 applicable charter school audit reports.
- Federal Uniform Guidance²¹ reporting requirements for the 20 district school board audit reports and the 17 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, 2018.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

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 2017-18 FISCAL YEAR AUDIT REPORTS NOT FILED AS OF MAY 31, 2019

Charter School	
1	Florida International Academy
2	Pivot Charter School - Fort Myers
3	Riviera Beach Maritime Academy
4	Unity Charter School of Fort Myers

Note: All 4 charter schools closed during the 2017-18 fiscal year.

EXHIBIT B

**DISTRICT SCHOOL BOARD AND CHARTER SCHOOL
2017-18 FISCAL YEAR AUDIT REPORTS
FILED MORE THAN 45 DAYS AFTER REPORT
WAS DELIVERED TO THE ENTITY'S GOVERNING BODY
AND AFTER MARCH 31, 2019**

		Days After 45-Day Deadline	Days After March 31, 2019 Deadline
District School Board			
1	Pinellas County District School Board	44	15
Charter School			
1	Campus Charter School ^a	439	16
2	South Broward Montessori Charter School	148	11
<u>3</u>	Total Number of Audit Reports Filed More than 45 Days After the Report was Delivered to the Entity's Governing Body and After March 31, 2019		

^a School closed in October 2017.

EXHIBIT C

**DISTRICT SCHOOL BOARD AND CHARTER SCHOOL
2017-18 FISCAL YEAR AUDIT REPORTS
FILED BY MARCH 31, 2019, BUT MORE THAN 45 DAYS AFTER
REPORT WAS DELIVERED TO THE ENTITY'S GOVERNING BODY**

		<u>Number of Days Audit Report</u>	
		Filed After Delivery to Entity's	
District School Board		Governing Body	Filed Late
1	Duval County District School Board	70	25
2	Escambia County District School Board	91	46
3	Lake County District School Board	96	51
4	Miami-Dade County District School Board	64	19
5	Pasco County District School Board	86	41
6	St. Johns County District School Board	100	55
Charter School			
1	Alpha Charter School of Excellence	94	49
2	Charter School of Excellence Davie	74	29
3	Charter School of Excellence Fort Lauderdale	74	29
4	Eagles' Nest Charter Academy	64	19
5	Eagles' Nest Middle Charter School	64	19
6	Ed Venture Charter School	64	19
7	Emma Jewel Charter Academy	54	9
8	Everglades Preparatory Academy - Palm Beach	64	19
9	Florida Futures Academy North Campus	64	19
10	Francis Marion Military Academy	114	69
11	Glades Academy	64	19
12	Imagine Schools Chancellor Campus	79	34
13	Inlet Grove Community High School	64	19
14	International School of Broward	64	19
15	Island Village Montessori Charter School	64	19
16	Lucious and Emma Nixon Academy	64	19
17	Mason Classical Academy	52	7
18	New Life Charter Academy	64	19
19	Ocali Charter Middle School	109	64
20	Palm Beach Maritime Academy	52	7
21	Palm Beach Maritime Academy High School	52	7
22	Panacea Prep Charter School	64	19
23	Pensacola Beach Elementary School	103	58
24	Pepin Academies of Pasco County	90	45

Charter School (Continued)		Number of Days Audit Report	
		Filed After Delivery to Entity's Governing Body	Filed Late
25	Pinellas Preparatory Academy	63	18
26	Pinellas Primary Academy Charter School	63	18
27	Plato Academy Clearwater Charter School	52	7
28	Plato Academy Largo Charter School	52	7
29	Plato Academy of St. Petersburg	52	7
30	Plato Academy of Tarpon Springs Charter School	52	7
31	Plato Academy Palm Harbor Charter School	52	7
32	Plato Academy Pinellas Park Charter School	52	7
33	Plato Academy Seminole Charter School	52	7
34	Plato Academy Tampa Charter School	52	7
35	Ridgeview Global Studies Academy	72	27
36	Rise Academy School of Science and Technology	64	19
37	Sarasota Academy of the Arts	98	53
38	School for Accelerated Learning and Technologies	119	74
39	Suncoast School for Innovative Studies	64	19
40	The Chiles Academy	169	124
41	The Pepin Academies	60	15
42	The Seaside School	72	27
43	Toussaint L'Ouverture High School for Arts and Social Justice	64	19
44	Wakulla's Charter School of Arts, Science and Technology	199	154
45	Workforce Advantage Academy Charter High School	56	11
46	Youth Co-Op Charter School	71	26
47	Youth Co-Op Preparatory High School	71	26

53 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, 2019)

EXHIBIT D

SUMMARY OF DEFICIENCIES NOTED DURING COMPLETENESS REVIEWS OF 2017-18 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 opinion on the financial statements did not correctly identify the applicable opinion units upon which the auditor should have opined.	20	-	-	-	614	127	21	19
Introductory paragraph of the report did not correctly identify the individual opinion units.	20	-	-	-	614	127	21	19
The report did not disclose the auditor's responsibility for supplementary information that was presented.	20	2	10	-	112	74	66	39
Notes to Financial Statements:								
The notes did not describe the types of transactions included in program revenues.	20	-	-	5	614	66	11	23
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	1	5	15	579	71	12	25
The notes did not disclose the appropriate risk categories (interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk) by investment type.	20	-	-	-	58	8	14	-
The notes did not disclose the portion of each long-term liability that is due within one year of the statement date.	20	-	-	-	303	16	5	-
The notes did not identify the governmental funds typically used to liquidate long-term liabilities.	20	1	5	5	168	58	35	29
Management Letter								
The letter did not include a statement as to whether or not corrective actions had been taken to address significant findings and recommendations made in the preceding audit report.	8	1	13	-	98	10	10	-
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	4	20	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 644 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 2017-18 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 Benefit (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	1	5	18	8	44
Pension Plan Disclosures: Regarding the defined benefit pension plan discount rate, the notes did not disclose the periods of projected benefits payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate.	20	-	-	27	7	26
OPEB Plan Financial Statement Note Disclosures: The notes did not disclose the amount of OPEB expense recognized by the employer in the reporting period	20	2	10	11	5	46
The notes did not disclose a description of the types of benefits and the authority under which the provision benefits are established or may be amended.	20	3	15	11	5	46
Summary Schedule of Prior Audit Findings: The audit report excluded the summary schedule of prior audit findings or the schedule did not note that the prior audit findings had been corrected or a description of the planned corrective action as well as any partial corrective action taken.	8	3	38	17	-	-

^a Finding 3 and the **OBJECTIVES, SCOPE, AND METHODOLOGY SECTION** of this report identify the number of entities we selected for review.