

**SUMMARY OF
SIGNIFICANT FINDINGS AND
FINANCIAL TRENDS IDENTIFIED IN
DISTRICT SCHOOL BOARD
AUDIT REPORTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2019**

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



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SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN DISTRICT SCHOOL BOARD AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SUMMARY

This report provides a summary of significant findings and financial trends identified in the audits of the 67 district school boards (school districts) for the fiscal year ended June 30, 2019. Pursuant to State law:

- 47 school district financial audits and 22 school district operational audits were completed by the Auditor General.
- 20 school district financial audit reports were completed by other independent certified public accountants (CPAs) and filed with the Auditor General.

Significant Findings

The audit reports for 49 of the 67 school districts included findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. Audit reports for 4 school districts included findings considered to be financial statement material weaknesses, 1 school district audit report included a major Federal program material noncompliance finding, and another school district report included a noncompliance and material weakness finding for a major Federal program. In comparison, for the 2017-18 fiscal year, 2 school district reports included financial statement material weakness findings and 2 school districts were cited with major Federal program noncompliance and material weaknesses.

Financial Trends

At June 30, 2019, the average financial condition ratio¹ for school districts Statewide was 9.78 percent, which is a slight increase over the average financial condition ratio at June 30, 2018. None of the 67 school districts had financial condition ratios below 3 percent at June 30, 2019 or June 30, 2018.

BACKGROUND

State law² provides for financial audits of district school boards to be conducted annually by the Auditor General or by other independent CPAs who must file their reports with the Auditor General by March 31 (i.e., no later than 9 months after the end of the school district's fiscal year). The scope of these audits includes an examination of the financial statements, the issuance of a report on compliance and internal control in accordance with generally accepted government auditing standards, and the issuance of a report on compliance and internal control for each major Federal program in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

¹ The financial condition measure used in this report is the ratio of the general fund total assigned and unassigned fund balance to the general fund total revenues.

² Sections 11.45 and 218.39, Florida Statutes.

In addition, State law³ requires the Auditor General to conduct operational audits of district school boards at least every 3 years. The operational audits are to be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and must include:

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

State law⁴ also requires that we annually compile a summary of significant findings and financial trends identified in school district audit reports.

SIGNIFICANT FINDINGS

Classification of Audit Findings

Auditing standards require auditors to report material weaknesses in internal control and significant control deficiencies that are disclosed during the course of a financial statement audit. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements would not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Auditors must also report material noncompliance or abuse that has a material effect on a financial statement audit. The classification of an audit finding is dependent upon its potential impact on the specific school district under audit. Therefore, the classification of an audit finding could vary from school district to school district.

For the 2018-19 fiscal year, the financial audit reports for 18 school districts contained no findings, while financial and operational audit reports for the remaining 49 school districts included a total of 175 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the 2017-18 fiscal year, the audit reports for 50 school districts included a total of 249 findings. The decrease in the number of findings can be attributed, in part, to the decreased number of findings related to control deficiencies over construction contract monitoring⁵ and

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

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

⁵ For the 2018-19 fiscal year, none of the school district audit reports included construction contract monitoring findings, while the audit reports for 5 school districts included 18 construction contract monitoring findings for the 2017-18 fiscal year.

information technology (IT) access controls.⁶ For purposes of this report, audit findings are generally classified in one of three categories:

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

Financial Statement Material Weakness and Material Noncompliance Findings

Pursuant to State law,⁷ a school district cited with a material weakness or an instance of material noncompliance in a financial audit is ineligible for recognition as an academically high-performing school district. Academically high-performing school districts are granted more flexibility than other school districts in meeting the specific requirements of Florida statutes and State Board of Education (SBE) rules.

While no school district audit reports for the 2018-19 fiscal year contained a material noncompliance finding, the audit reports for four school districts (Bay, Glades, Hernando, and Leon) included findings considered to be material weaknesses.⁸ Specifically, Bay, Hernando, and Leon County School Districts needed procedural enhancements to ensure the accuracy and completeness of financial statements. Glades County School District needed to improve controls in accountability over the District's school internal funds so that the required school internal funds audit can be timely completed and considered in the preparation of the District financial statements.

Financial Statement Significant Deficiency and Additional Matter Findings

Findings included in 49 school districts' audit reports for the 2018-19 fiscal year addressed control deficiencies; instances of noncompliance with applicable laws, rules, and regulations; or additional matters. The findings are summarized below.

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

- **Access Controls.** Audit reports for 24 school districts addressed various IT access control deficiencies. For example, at 14 school districts, certain employees had full update access privileges to IT applications or components that allowed them to perform functions incompatible or inconsistent with their assigned job responsibilities. Additionally, at 13 school districts (including 3 cited for inappropriate full update IT access privileges), inappropriate or unnecessary IT access privileges to sensitive personal information of students existed. Effective access

⁶ For the 2018-19 fiscal year, the audit reports for 24 school districts included 32 IT access control findings. In comparison, for the 2017-18 fiscal year, the audit reports for 35 school districts included 48 IT access control findings.

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

⁸ For the 2017-18 fiscal year, two audit reports included material weaknesses.

controls help protect data and IT resources from unauthorized disclosure, modification, or destruction.

- **User Authentication.** The need for improvements in security controls related to user authentication for IT applications was noted for 5 school districts (including 4 cited for access control deficiencies). Adequate security controls related to user authentication help ensure the confidentiality, integrity, and availability of district data and IT resources.
- **Logging/Monitoring.** Audit reports for 4 school districts (also cited for access control deficiencies) 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.** Four school districts (including 3 cited for access control deficiencies and 1 cited for a user authentication control deficiency) had not developed written, comprehensive IT disaster recovery plans or had not tested the plan. A disaster recovery plan should identify key recovery personnel and critical applications, provide for critical data backups, and include step-by-step procedures for recovery to help minimize data and asset loss in the event of a major hardware or software failure.
- **Risk Assessment.** Audit reports noted that 3 school districts (also cited for access control deficiencies) had not developed written, comprehensive IT risk assessments. IT risk assessments, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, help support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.
- **Data Loss Prevention.** Four school districts (also cited for access control deficiencies) needed improvements in security controls over data loss prevention. Effective data loss prevention helps ensure protection from unauthorized disclosure through the establishment of procedures to identify and classify confidential or sensitive data, locate the storage and pathways, and monitor the use and transmission of confidential or sensitive data.
- **Other.** Other IT findings addressed the lack of critical elements of security incident response plan, deficiencies in security controls related to mobile device management, and improvements needed over vulnerability management controls.

Financial Record Keeping and Records Management. In addition to the previously discussed material weaknesses in financial reporting procedures for Bay, Hernando, and Leon County School Districts, the audit reports for 14 other school districts cited certain record keeping and financial records management deficiencies. Procedures at 10 of the 14 school districts needed improvements to ensure the accuracy and completeness of the financial statements. While most of the findings cited procedural deficiencies that caused financial misstatements, requiring audit adjustments for accurate financial statement presentation, findings at 3 school districts addressed needed improvements in procedures to properly report district charter schools as discretely presented component units on the districts' financial statements. Other financial record keeping and management findings include, for example, journal entry control deficiencies, committee meeting minutes procedures that did not comply with State law,⁹ and failure to submit monthly financial reports to the school board contrary to SBE rules.¹⁰

Cash and Investment Controls. The audit reports for ten school districts included findings addressing the need for enhancements in controls over cash or investments. Seven school districts needed to

⁹ Section 286.011, Florida Statutes.

¹⁰ SBE Rule 6A-1.008, Florida Administrative Code.

improve bank reconciliation procedures, two other school districts needed to strengthen controls over the collection of child care or prekindergarten fees, and another school district did not properly credit investment interest earnings to the funds that produced the earnings.

Payroll and Personnel. Audit report findings for 19 school districts addressed the need to improve controls over payroll and personnel. Specifically:

- **Florida Best and Brightest Teacher Scholarship Program and Florida Best and Brightest Principal Scholarship Program.** For 13 school districts, controls over Teacher Scholarship and Principal Scholarship Program awards were deficient. Because of these deficiencies, awards were not always based on statutory eligibility requirements¹¹ resulting in questioned costs totaling \$1,005,116, ranging from \$1,909 to \$444,055, for these school districts. Additionally, 2 of these 13 school districts disbursed scholarship awards from non-Program funds without specific legal authority. Also, 1 of these 13 school districts used over-funded scholarships totaling \$1.2 million to pay employer payroll taxes on awards without specific authority. The audit findings at 7 of these 13 school districts also included control deficiencies over Teacher Scholarship Program awards to charter schools. Those school districts did not verify or document the eligibility of charter school teachers before the teachers were awarded scholarships.
- **Performance Evaluation and Salary Schedule.** The school boards for 8 school districts (including 4 cited for Teacher Scholarship and Principal Scholarship Program control deficiencies) had not adopted salary schedules that provided annual salary adjustments for instructional personnel or school administrators based on employee and student performance as required by State law.¹² Additionally, 1 of these 8 school districts did not use student performance measures to conduct school administrative personnel performance evaluations contrary to State law.¹³
- **Background Screenings and Searches.** For 3 school districts (including 2 cited for Teacher Scholarship Program control deficiencies), procedures for performing background screenings of school district employees or contracted vendors with direct student contact were not adequate. Additionally, 1 of these 3 school districts and 1 other school district did not properly conduct background searches for prospective school volunteers as required by State law.¹⁴
- **Other.** Other payroll and personnel findings addressed, for example, deficiencies for a documented process to identify certain school district personnel entitled to differentiated pay using the factors prescribed in State law,¹⁵ needed improvements in controls over employee hiring practices, and procedural enhancements needed to sufficiently and appropriately evidence employee time worked and to document supervisory review and approval of time worked.

Expenditures and Purchasing. For five school districts, contract monitoring procedures needed enhancement to ensure that payments for professional services only be made pursuant to properly authorized documents, service deliverables and related costs are established and authorized, and the satisfactory receipt of services is documented prior to payment. For two other school districts, improvements were needed for controls over purchasing cards.

¹¹ Sections 1012.731 and 1012.732, Florida Statutes (2018).

¹² Section 1012.22(1)(c)4. and 5., Florida Statutes.

¹³ Section 1012.34, Florida Statutes.

¹⁴ Section 943.04351, Florida Statutes.

¹⁵ Section 1012.22(1)(c)4.b., Florida Statutes.

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

- **Charter School Capital Outlay Funding.** Audit reports for five school districts noted control deficiencies related to State law¹⁶ requiring school districts to distribute to eligible charter schools a portion from the discretionary millage revenue authorized in State law.¹⁷ Specifically, two school districts misreported to the Florida Department of Education (FDOE) the annual debt service amounts used in calculating the eligible charter school funding allocations. In addition, one of the two and three other school districts did not adjust payments to charter schools when anticipated Federal interest rate subsidies were received. As a result, distributions to eligible charter schools for each school district were less than that required by State law, ranging from \$20,144 to \$1.8 million, and totaling \$2.5 million.
- **Restricted Capital Outlay Resources.** Audit reports for three school districts (including one cited for a charter school capital outlay funding deficiency) noted control deficiencies related to restricted capital outlay resources. Specifically, records at these school districts did not evidence that ad valorem tax levy proceeds were used in accordance with applicable statutory provisions. Contrary to State law,¹⁸ two of the three school districts expended ad valorem tax levy proceeds for \$227,869 and \$5.5 million, respectively, for unallowable purposes, such as Internet and wide area network services, general liability and workers' compensation insurance premium costs, or lease-purchase of school buses that were not advertised. In addition, another school district used ad valorem tax levy proceeds for school bus costs that exceeded statutory thresholds,¹⁹ resulting in questioned costs totaling \$284,318.
- **Facilities Inspections.** Audit reports for two school districts noted control deficiencies related to facilities inspections. One of the two school districts (also cited for a control deficiency related to the ad valorem tax proceeds) did not conduct the required facility safety inspections for any school district facility and did not obtain the required facility safety inspections for the school district's two charter schools during the 2018-19 fiscal year. The other school district (also cited for a charter school capital outlay funding control deficiency) did not always timely correct deficiencies noted in annual facility inspections.
- **Facilities Maintenance.** One school district audit report addressed procedural enhancements needed for the operating effectiveness and efficiency of the school district's facilities and maintenance department, such as developing additional goals and objectives for the department to identify measurable efficiency or cost-effectiveness outcomes for department personnel.

School Safety. For 11 school districts, audit report findings addressed control deficiencies related to school safety policies and procedures. Ten of these 11 school districts did not always comply with emergency drill requirements specified in State law²⁰ and the Fire Code.²¹ These school districts had not properly established verification procedures to ensure that, for each month school is in session, the required active shooter and hostage situations and fire emergency drills were conducted and documented for each school. Six of the 11 school districts (including 5 cited for emergency drill requirements) did not always maintain documented verifications that at least one safe-school officer was assigned during

¹⁶ Section 1013.62, Florida Statutes (2017).

¹⁷ Section 1011.71(2), Florida Statutes.

¹⁸ Sections 1011.71(2) and 200.065(10)(a), Florida Statutes.

¹⁹ Section 1011.71(2)(i), Florida Statutes.

²⁰ Section 1006.07(4), Florida Statutes, as amended by Chapter 2018-3, Laws of Florida (The Marjory Stoneman Douglas High School Public Safety Act).

²¹ Section 20.2.4.2.3 of the Florida Fire Prevention Code, 6th Edition (2017).

school hours at each school facility or that safe-school officers were appropriately trained as required by State law.²² Also, 1 school district (also cited for deficiencies in safe-school officer assignment and monitoring) had not established policies and procedures that require and ensure implementation of the student crime watch program and the appropriate reporting of the school security risk assessment results, contrary to State law.²³

Insurance. For eight school districts, audit report findings addressed the need to improve controls over health insurance programs. Specifically, for seven school districts, procedural improvements were needed for verifying eligibility of dependents covered by the school district health insurance plan. Those school districts did not review documentation necessary to support the eligibility of all dependents enrolled in the insurance plans and had not established procedures to document periodic verifications to ensure that dependent participants in the plan remain eligible. The other school district did not use competitive bidding procedures required by State law²⁴ when procuring a health insurance plan.

School Internal Funds. In addition to the previously discussed material weakness in internal control over school internal funds for Glades County School District, audit reports for three school districts addressed needed improvements in accountability over school internal funds. Specifically, the school internal funds audit reports of two of the three school districts were not timely issued to be considered in completing the school districts' financial statements and related audits. The audit report for the other school district addressed deficiencies over cash controls in the school district's school internal funds accounts such as inadequate separation of duties.

Various Other Matters. In addition to the audit findings described above, findings addressing various other matters were included in school district audit reports. These matters included, for example, the need for improved controls over adult general education instructional contact hours reporting; the lack of an effective control environment that separates incompatible employee duties; noncompliance with the required number of virtual instruction program options; and improvements needed in charter school closure monitoring efforts to ensure that charter school audit reports are timely completed and applicable assets revert to the school district.

Federal Awards Findings

The audit reports for 11 school districts included a total of 13 Federal awards findings (12 findings related to major Federal programs and 1 finding related to a nonmajor Federal program with questioned costs greater than \$25,000). These findings addressed the Federal compliance requirements of Allowable Costs and Cost Principles; Cash Management; Eligibility; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions and related to the Student Financial Assistance Cluster, Child Nutrition Cluster, Special Education Cluster, and Emergency Impact Aid programs. One of the 11 school district audit reports included a material noncompliance finding (Collier) and another school district audit report included a noncompliance and material weakness in internal control over compliance finding (Miami-Dade) for a major Federal program for each school district, resulting in qualified opinions on those

²² Section 1006.12, Florida Statutes.

²³ Section 1006.07(3) and (6)(a)4., Florida Statutes.

²⁴ Section 112.08(2)(a), Florida Statutes.

programs. Comparatively, for the 2017-18 fiscal year, two school districts were cited with major Federal program noncompliance and material weaknesses in internal control over compliance. Additionally, we noted that 7 of the 11 school districts had a total of 9 noncompliance and/or significant deficiency findings that were material to applicable compliance requirement types and another school district had a control deficiency finding in internal control over a major Federal program.

For the 2018-19 fiscal year, six school district audit reports each had a finding that identified Federal program questioned costs. The known questioned costs for these six school districts ranged from \$2,539 to \$2.6 million and totaled \$4 million. In comparison, for the 2017-18 fiscal year, five school district audit reports each had a finding that identified Federal program questioned costs ranging from \$3,601 to \$274,284 and totaling \$571,125. Questioned costs include costs of goods or services charged to one or more Federal programs that are not allowed under the applicable grant terms, not clearly supported by the Federal program's purposes, not documented in the manner prescribed by applicable Federal cost principles or State or school district policies, or not incurred during the grant period. If the applicable grantor disallows questioned costs, a school district may have to repay the costs from non-Federal sources.

FINANCIAL TRENDS

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

There are several measures that may be used to evaluate the financial condition of governments depending on the specific needs and circumstances of each government. For example, the Government Finance Officers Association (GFOA)²⁵ recommends that, at a minimum, the unrestricted fund balance in the general fund be no less than 2 months of general fund operating revenues or general fund operating expenditures and operating transfers out, if applicable.

Another widely used financial condition measure relevant to school districts is based on State law,²⁶ which compares the level of available equity in the operating fund to overall operating resources for that fund for a fiscal year. This measure is a point-in-time indicator of resources available for appropriation to meet the costs of expected and unexpected and nonrecurring events. We used this measure, shown in Table 1, to analyze the financial condition of the school districts.

²⁵ GFOA Best Practice, *Fund Balance Guidelines for the General Fund* (September 2015).

²⁶ Section 1011.051, Florida Statutes.

**Table 1
Financial Condition Measure**

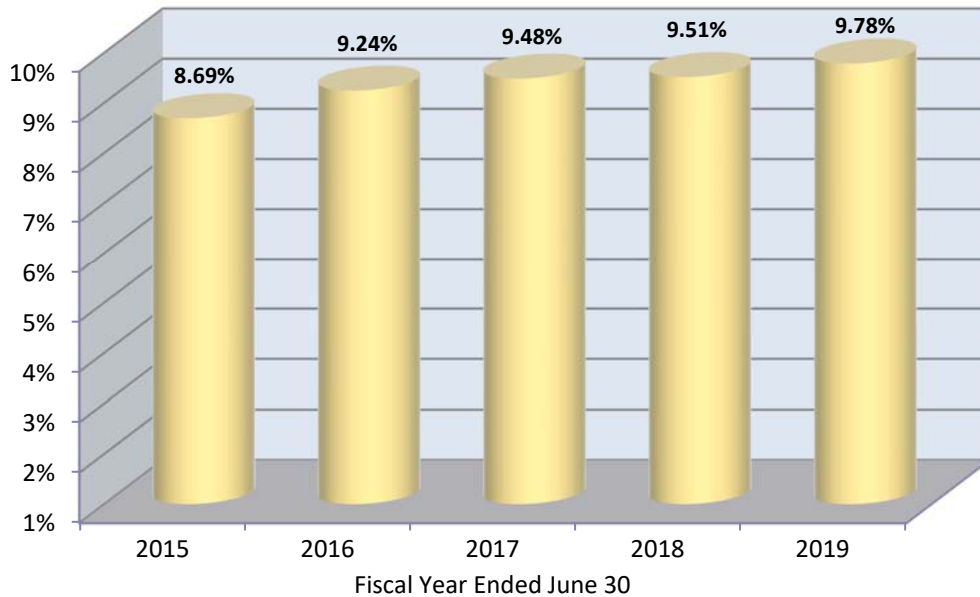
$\frac{\text{General Fund Total Assigned and Unassigned Fund Balance}}{\text{General Fund Total Revenues}} = \text{Financial Condition Ratio (\%)}$

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

Financial Condition Trends

Chart 1 shows the average financial condition ratios of the 67 school districts for the fiscal years ended June 30, 2015, through June 30, 2019. As shown in Chart 1, the average financial condition ratios have steadily increased over the past 4 fiscal years from 8.69 percent at June 30, 2015, to 9.78 percent at June 30, 2019.

**Chart 1
Average Financial Condition Ratios of School Districts
For the Fiscal Years Ended June 30, 2015, Through June 30, 2019**

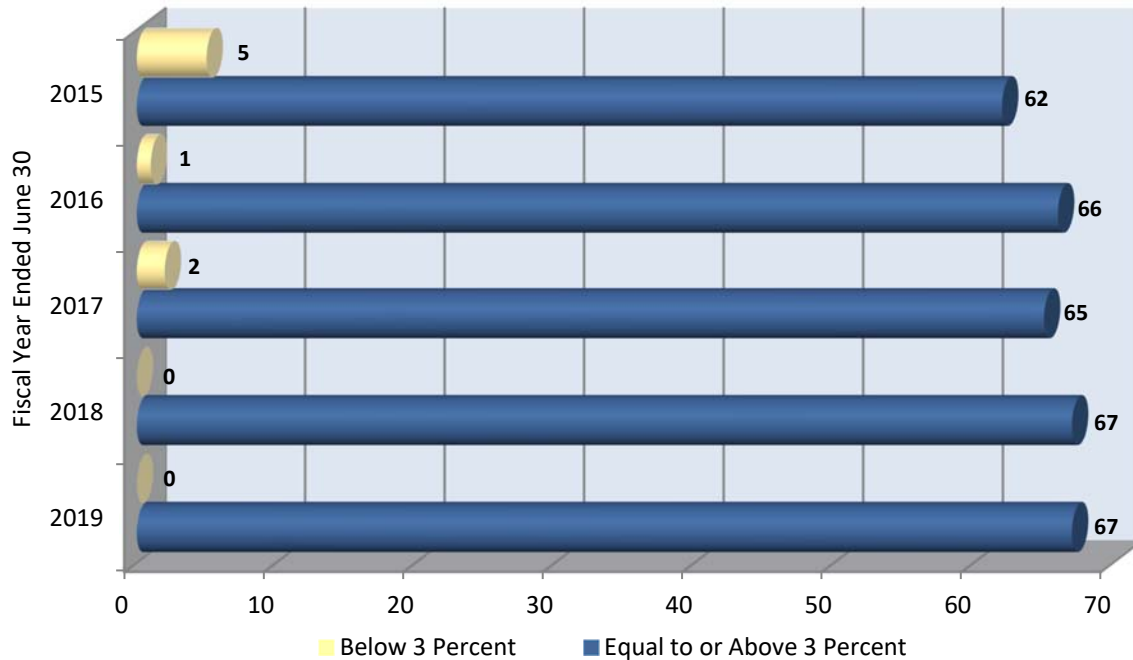


State law²⁷ requires each school district to maintain a general fund ending fund balance that is sufficient to address normal contingencies. If at any time the financial condition ratio determined from the school districts' approved operating budget is projected to fall below 3 percent during the current fiscal year, school district superintendents must provide written notification to the Commissioner of Education and

²⁷ Section 1011.051, Florida Statutes.

respective school board. Chart 2 shows, for the fiscal years ended June 30, 2015, through June 30, 2019, the number of school districts with financial condition ratios below 3 percent and the number of school districts with financial condition ratios equal to or above 3 percent.

Chart 2
Number of School Districts with Financial Condition Ratios Below 3 Percent and
Number of School Districts with Financial Condition Ratios Equal to or Above 3 Percent
For the Fiscal Years Ended June 30, 2015, Through June 30, 2019



As indicated in Chart 2, none of the 67 school districts had financial condition ratios below 3 percent at June 30, 2019. Over the previous 4 years, the number of school districts with financial condition ratios below 3 percent at fiscal year end ranged from zero to five school districts. These school districts had significantly fewer resources available for emergencies and unforeseen situations than other school districts. Historically, a school district that experiences a weak financial condition implements measures that generally restore the financial condition to a favorable position within 1 to 2 fiscal years.

If at any time a school district’s financial condition ratio, determined from the school district’s approved operating budget, is projected to fall below 2 percent, State law²⁸ 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,²⁹ 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.

²⁸ Section 1011.051(2), Florida Statutes.

²⁹ Section 218.503(3), Florida Statutes.

Factors Impacting Financial Condition

Further analyses of school district financial trend data identified other factors that impact the financial condition of school districts and may increase the risk of a weak financial condition. While no single factor is identified as a guaranteed predictor of financial condition, factors such as property taxable values, increasing or declining enrollment, and the size of schools necessitate effective financial management to limit the factors' impact on the school districts' financial condition.

Property Taxable Values. Property taxes, which are assessed on property taxable values, are the primary source of local revenue for school districts. According to the Florida Department of Revenue, Statewide property taxable values increased from \$1.64 trillion in the 2015 calendar year to \$2.17 trillion in the 2019 calendar year, or an increase of 32 percent. Due to this increase, which was partially offset by decreases in levied millage rates, Statewide property tax levies for school district operations increased by 18 percent, from \$12 billion for the 2014-15 fiscal year to \$14.2 billion for the 2018-19 fiscal year.

Increasing Enrollment. Over the past 5 years, Statewide student enrollment increased 3 percent, from 2,706,033 for the 2014-15 fiscal year to 2,788,913 for the 2018-19 fiscal year. A total of 44 school districts experienced enrollment growth during this 5-year period, including 11 school districts with enrollment growth of more than 5 percent and 1,000 unweighted full-time equivalent students (FTE), as shown in Table 2. Although these 44 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
2014-15 Fiscal Year Through the 2018-19 Fiscal Year

School District	Unweighted FTE			Percent Increase
	2014-15	2018-19	Increase	
1 St. Johns	34,886	41,119	6,233	17.87%
2 Walton	8,298	9,630	1,332	16.05%
3 Osceola	58,465	67,632	9,167	15.68%
4 Pasco	68,116	74,324	6,208	9.11%
5 Orange	190,380	206,451	16,071	8.44%
6 Santa Rosa	25,901	27,957	2,056	7.94%
7 Polk	97,877	104,305	6,428	6.57%
8 Clay	35,636	37,780	2,144	6.02%
9 Hillsborough	204,491	215,429	10,938	5.35%
10 Lee	88,349	92,895	4,546	5.15%
11 Lake	41,322	43,409	2,087	5.05%

Declining Enrollment. While student enrollment increased in total for school districts from the 2014-15 fiscal year through the 2018-19 fiscal year, 23 school districts experienced enrollment declines ranging from 5 to 6,060 unweighted FTE during this period. Of these 23 school districts, only 3 (Miami-Dade, Pinellas, and Bay) declined by 1,000 or more unweighted FTE.

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

Size of Schools. The size of schools varies significantly between school districts. Most school districts have varying combinations of large, medium, and small schools. Logically, larger schools have a lower cost per student than smaller schools because 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 2018-19 fiscal year, the base Florida Education Finance Program (FEFP) allocation was \$4,204.42 per weighted FTE student, which represents an increase of \$0.47 from the base FEFP allocation of \$4,203.95 per weighted FTE student for the 2017-18 fiscal year. Also, based on the 2019-20 fiscal year FEFP fourth calculation, the base FEFP allocation for the 2019-20 fiscal year increased by \$75.07 per weighted FTE to \$4,279.49. The weighted FTE student enrollment in school districts increased by 12,232, or 0.4 percent, from the 2017-18 to the 2018-19 school year. Similarly, in the 2019-20 school year, the weighted FTE student enrollment increased by 47,860, or 1.57 percent, based on the 2019-20 FEFP fourth calculation. Effective financial monitoring and timely and appropriate adjustments to school district operations are critical to ensure that operating costs remain within available financial resources.

Debt and Other Long-Term Financing. School districts may finance capital outlay projects by issuing long-term debt such as general obligation bonds and school district revenue bonds and by entering into long-term lease finance arrangements generally referred to as certificates of participation (COPs). The long-term debt and other financing obligations reported as outstanding as of June 30, 2019, consisted primarily of:

- COPs totaling \$9.4 billion (39 school districts).
- General obligation bonds totaling \$1.2 billion (2 school districts).
- School district revenue bonds totaling \$1 billion (28 school districts).
- Qualified School Construction Bonds (QSCBs) totaling \$907.8 million (20 school districts).
- Qualified Zone Academy Bonds (QZABs) totaling \$263.4 million (22 school districts).
- State Board of Education bonds totaling \$90.6 million (59 school districts).
- Build America Bonds (BABs) totaling \$32.2 million (2 school district).
- Long-term debt notes totaling \$88.6 million (11 school districts).

Generally, school districts extinguish their debt through various pledged resources such as capital outlay millage, discretionary sales surtax, and other tax proceeds. As of June 30, 2019, pledged resources were generally sufficient to cover the required debt service by school districts.

Of the 39 school districts with COPs at June 30, 2019, 4 school districts had variable interest rate COPs and had entered into a total of seven 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, 2019, total fair values of the interest rate swap agreements for each of the 4 school districts ranged from negative \$34.1 million to negative \$11.3 million, a decrease over the fair value range at June 30, 2018, which was from negative \$28.5 million to negative \$9.1 million. Notwithstanding, the June 30, 2019, agreements are associated with COPs with remaining terms ranging from 3 to 13 years and the actual benefit or additional costs of the swap agreements generally will not be known until the debt is extinguished. Depending on the fair value of the swap agreements upon termination, there is a risk that the debt service costs of these school districts may exceed the costs that could have been experienced from regular fixed-rate debt. As of June 30, 2019, each of these 4 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 \$31.6 billion in the governmental funds for the 2018-19 fiscal year, an increase of \$1.5 billion (5 percent) from the 2017-18 fiscal year.

Table 3
School District Revenues – All Governmental Funds
For the 2017-18 and 2018-19 Fiscal Years

Governmental Fund Type	2017-18		2018-19		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	\$22,100,177,863	73.51%	\$22,802,067,660	72.23%	\$701,889,797	3.18%
Other Funds	7,964,410,736	26.49%	8,766,267,099	27.77%	801,856,363	10.07%
Totals	\$30,064,588,599	100.00%	\$31,568,334,759	100.00%	\$1,503,746,160	5.00%

Table 4 shows, by source, the total governmental fund type revenues reported by school districts for the 2017-18 and 2018-19 fiscal years, and the related increases by revenue source.

Table 4
School District Revenues by Source – All Governmental Funds
For the 2017-18 and 2018-19 Fiscal Years

Source	2017-18		2018-19		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 3,459,098,620	11.50%	\$ 3,589,338,016	11.37%	\$ 130,239,396	3.77%
State	12,184,384,610	40.53%	12,586,612,185	39.87%	402,227,575	3.30%
Local	14,421,105,369	47.97%	15,392,384,558	48.76%	971,279,189	6.74%
Totals	<u>\$30,064,588,599</u>	<u>100.00%</u>	<u>\$31,568,334,759</u>	<u>100.00%</u>	<u>\$1,503,746,160</u>	<u>5.00%</u>

The 5 percent increase in total revenues for the 2018-19 fiscal year consisted of increases in each of the three revenue sources. The largest revenue increase of \$971 million was in local revenues, which was due, in part, to increases in property taxable values, resulting in additional revenues from the millage levies of approximately \$479 million. Additionally, the local sales tax and impact fee collections increased by \$150 million and \$107 million, respectively, from the 2017-18 fiscal year, which contributed to the total local revenue increase. The increase in State revenues consisted of increases of \$210 million in restricted State revenues and \$192 million in State FEFP revenues.

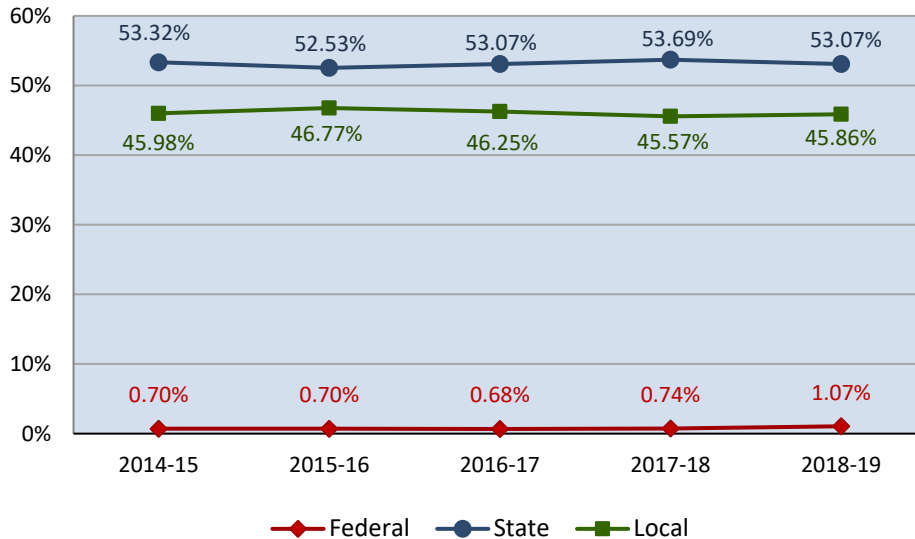
Table 5 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2017-18 and 2018-19 fiscal years, and the related increase in these revenues.

Table 5
School District General Fund Revenues by Source
For the 2017-18 and 2018-19 Fiscal Years

Source	2017-18		2018-19		Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	\$ 163,793,884	0.74%	\$ 243,587,546	1.07%	\$ 79,793,662	48.72%
State	11,865,776,797	53.69%	12,100,712,502	53.07%	234,935,705	1.98%
Local	10,070,607,182	45.57%	10,457,767,612	45.86%	387,160,430	3.84%
Totals	<u>\$22,100,177,863</u>	<u>100.00%</u>	<u>\$22,802,067,660</u>	<u>100.00%</u>	<u>\$701,889,797</u>	<u>3.18%</u>

As shown in Table 5, the State provided most of the school districts' general fund resources and local revenue sources provided slightly less. As discussed later in this section, Federal funds are restricted and most of those funds are reported in special revenue funds. Chart 3 shows the percentage of Statewide general fund revenues from Federal, State, and local sources for the 2014-15 through 2018-19 fiscal years.

Chart 3
Percentage of School District General Fund Revenues
From Federal, State, and Local Sources
For the 2014-15 Through 2018-19 Fiscal Years



FEFP – State and Local Revenues. Most of the State and local revenues for school district operations are derived from the FEFP, which is designed to provide a base level of educational resources per FTE student for all school districts. FEFP moneys are primarily generated by multiplying the number of FTE students in funded educational programs by various weights and cost factors determined by the Legislature. Each school district receiving State FEFP moneys must levy the required local effort millage in its local property taxes.

State and local FEFP revenues for school district operations totaled \$16.1 billion for the 2018-19 fiscal year, and consisted of \$8.4 billion in State revenues and \$7.7 billion in local revenues. In addition to the \$8.4 billion in State revenues for operations as part of the FEFP, the school districts reported \$4.2 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 \$7.7 billion in local revenues for funding operations as part of the FEFP, the school districts reported \$7.7 billion in other local revenues. These local revenues included, but were not limited to, \$2.9 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; \$1.5 billion from discretionary local effort millage levies for operations; \$367 million from special voter levies; and \$96 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-nine school districts reported local sales tax revenues, which totaled \$1 billion for the 2018-19 fiscal year, while 26 school districts reported local sales tax revenues, which totaled \$885 million for the 2017-18 fiscal year. Twenty-six school districts reported impact fee revenues, which totaled \$459 million for the 2018-19 fiscal year, while 28 school districts reported impact fee revenues, which totaled \$352 million, for the 2017-18 fiscal year. Impact fees were in place during the 2018-19 fiscal year for 7 other school districts but the respective

counties suspended fee collections primarily to stimulate construction development and help local economies.

Federal Revenues. Special revenue fund resources consist of moneys restricted by Federal and State grantors³⁰ for specific program purposes, such as those of the Title I and National School Lunch Act programs. Because these resources are restricted, school districts can use them only for specific activities that meet the purposes of the granting agency. Such resources are not available for general appropriation for operating activities or for unexpected events or emergencies.

Debt Issuance Proceeds. The issuance of long-term debt is a significant source of capital funding for school districts. Debt issuance proceeds (net of refundings) and capital lease proceeds for the 2018-19 fiscal year totaled \$582 million, compared to \$518 million for the 2017-18 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. Certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,³¹ are provided for school district new construction and facilities maintenance projects. These statutory appropriations have included PECO, Classrooms First, Classrooms for Kids, and Capital Outlay and Debt Service (CO&DS), funded predominantly using proceeds from the gross receipts and motor vehicle licensing taxes established by the State Constitution.³² As shown in Chart 4, State capital outlay appropriations to school districts,³³ excluding funding to charter schools, increased from \$136.5 million for the 2014-15 fiscal year to \$308 million for the 2018-19 fiscal year. During that same 5-year period, capital outlay funding for charter schools increased from \$75 million for the 2014-15 fiscal year to \$145.3 million for the 2018-19 fiscal year.

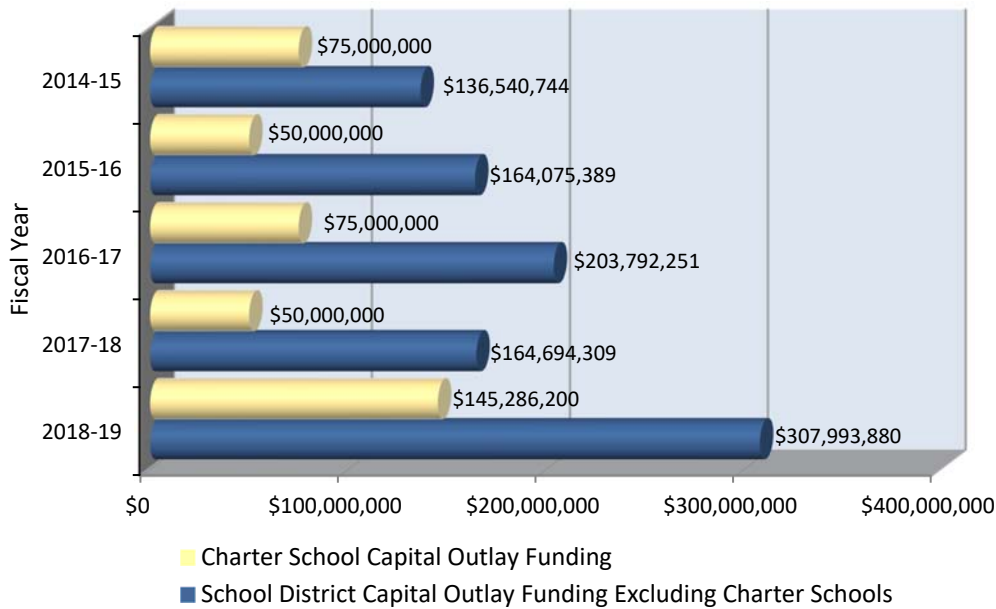
³⁰ Most Federal revenues are provided to school districts through State agencies.

³¹ Section 1013.65, Florida Statutes.

³² Article XII, Sections 9(a)(2) and 9(d) of the State Constitution.

³³ State capital outlay appropriations include PECO, Classrooms First, Classrooms for Kids, and CO&DS (excluding interest earnings on undistributed CO&DS).

Chart 4
State Capital Outlay Appropriations
For the 2014-15 Through 2018-19 Fiscal Years



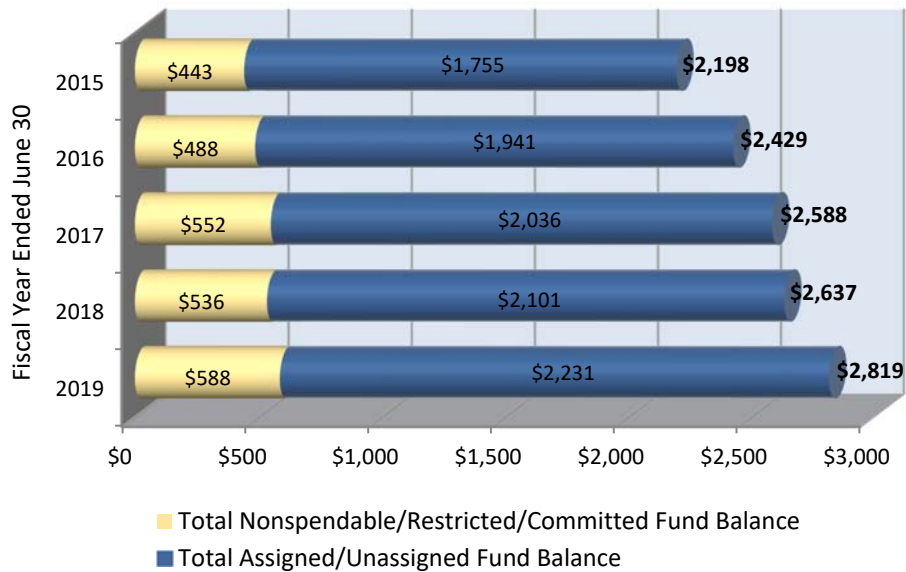
The \$143.3 million increase in State capital outlay appropriations to school districts for the 2018-19 fiscal year was composed of increases in PECO and CO&DS funding of \$121.5 million and \$21.8 million, respectively. The increase in PECO was due to the new educational facilities security grant³⁴ totaling \$99 million to improve the physical security of school buildings and the \$26 million funding to the Broward County School District for building a memorial and replacing educational facilities at Marjory Stoneman Douglas High School.³⁵

Fund Balance Trends. As shown in Chart 5, the total fund balances of the school district general funds (operating funds) increased from \$2.2 billion to \$2.8 billion over the past 4 years mainly due to increases in State FEFP revenues and revenues from local property taxes levied for operational purposes.

³⁴ Chapter 2018-3, Laws of Florida, Section 44, appropriated \$99 million in nonrecurring funds to the FDOE to implement a grant program that provides capital outlay funds to improve the physical security of school buildings based on a security risk assessment required by Sections 1006.07 and 1006.1493, Florida Statutes.

³⁵ Chapter 2018-3, Laws of Florida, Sections 38 and 39.

Chart 5
Fund Balances of the General Fund
For the Fiscal Years Ended June 30, 2015, Through June 30, 2019
(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 steadily increased each year from \$1.8 billion at June 30, 2015, to \$2.2 billion at June 30, 2019.

OTHER MATTERS OF INTEREST

Findings Repeated from Previous Audit Reports

State law³⁶ 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 195 findings³⁷ included in the audit reports issued during the period July 1, 2019, through June 30, 2020, 15 (8 percent) were also included in the two preceding financial or operational audit reports. In comparison, of the 238 findings included in the audit reports issued during the period July 1, 2018, through June 30, 2019, 22 (9 percent) had also been included in the two preceding financial or operational audit reports.

³⁶ Sections 11.45(7)(j) and 218.39(8), Florida Statutes.

³⁷ The 195 findings were included in the audit reports issued during the 2018-19 fiscal year; whereas, there were 175 findings included in the audit reports for the 2018-19 fiscal year as discussed under the heading ***Classification of Audit Findings***.

Pursuant to State law, on July 1, 2020, we notified the Legislative Auditing Committee of the 11 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 15 district school boards included in our notification for the 2017-18 fiscal year.

School District Budget Transparency

State law³⁸ requires the Auditor General to annually transmit to legislative leadership (President of the Senate and Speaker of the House) and the Department of Financial Services (DFS) a list of all school districts that have failed to comply with statutory transparency requirements. State law³⁹ requires each district school board to post on its Web site a plain language version of each proposed, tentative, and official budget describing each budget item in easily understandable terms. The law includes a list of items recommended for inclusion on the Web sites, such as budget hearing information, contracts with teachers' unions and noninstructional staff, and contracts with vendors exceeding \$35,000. This statutory requirement enables taxpayers, parents, and education advocates to readily obtain school district budget and related information in a simply explained and easily understandable manner. Budgetary transparency leads to more responsible spending, more citizen involvement, and improved accountability.

Pursuant to State law, on July 1, 2020, we notified legislative leadership and the DFS of the district school board (Gadsden) that failed to comply with the transparency requirements; while two district school boards were included in our notification for the 2017-18 fiscal year.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this project was to identify significant findings and financial trends based on our review of school district audit reports.

The scope of this project included a review of the audit reports for the fiscal year ended June 30, 2019, for the 47 school districts audited by the Auditor General and the 20 school districts audited by other independent CPAs.

Our methodology included a review of applicable audit reports and a compilation of significant findings and financial trends. We believe that the procedures performed provide a reasonable basis for the summaries of significant findings and financial trends included in this report.

³⁸ Section 11.45(7)(i), Florida Statutes.

³⁹ Section 1011.035, Florida Statutes (2018). This law was expanded by Chapter 2018-5, Laws of Florida, effective July 1, 2019, to require school districts to post on their Web sites certain graphical representations and a link to the Web-based fiscal transparency tool developed by the FDOE.

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, 2019.

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

Sherrill F. Norman, CPA
Auditor General