

**SUMMARY OF
SIGNIFICANT FINDINGS AND
FINANCIAL TRENDS IDENTIFIED IN
DISTRICT SCHOOL BOARD
AUDIT REPORTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2021**

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



Sherrill F. Norman, CPA
Auditor General

This project was coordinated by Stellar Lee, CPA.

Please address inquiries regarding this report to Edward A. Waller, CPA, Audit Manager, by e-mail at tedwaller@aud.state.fl.us or by telephone at (850) 412-2887.

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SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN DISTRICT SCHOOL BOARD AUDIT REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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, 2021. Pursuant to State law:

- 45 school district financial audits and 27 school district operational audits were completed by the Auditor General.
- 22 school district financial audits were completed by other independent certified public accountants (CPAs) and the audit reports were filed with the Auditor General.

Significant Findings

The audit reports for 43 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 8 school districts included findings considered to be financial statement material weaknesses and 1 additional school district audit report included a noncompliance and material weakness finding for a major Federal program. In comparison, for the 2019-20 fiscal year, 4 school district audit reports included financial statement material weakness findings and 1 school district audit report included a noncompliance and material weakness finding for a major Federal program.

Financial Trends

At June 30, 2021, the average financial condition ratio¹ for school districts Statewide was 11.98 percent, which is 2.38 percentage points more than the average financial condition ratio for the previous fiscal year. Of the 67 school districts, only 1 had a financial condition ratio that was below 3 percent at June 30, 2021, and consequently, this school district had fewer resources available for emergencies and unforeseen situations than other school districts.

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 identification of 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.

The 2020-21 fiscal year financial audit reports for 40 school districts contained no findings, while the financial audit reports for the remaining 27 school districts included a total of 44 findings. In addition, the Auditor General operational audit reports for 27 school districts included 141 findings. In total, the audit reports for 43 school districts included 185 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. For the 2019-20 fiscal year, the audit reports for 39 school districts included a total of 138 findings. The increase in the number of findings can be attributed, in part, to the increased number of control deficiency findings relating to

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

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

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

For the 2020-21 fiscal year, eight school district audit reports included findings considered to be material weaknesses and one of those audit reports (Bradford) also included a material noncompliance finding.⁶ Specifically:

- **Financial Reporting.** Audit reports for five school districts (Bay, Bradford, Pasco, Pinellas, and Putnam) cited material weaknesses for the districts not always ensuring the accuracy and completeness of financial statements and related information, such as the Schedule of Expenditures of Federal Awards (SEFA). Additionally, the audit report for the Bradford County School District also addressed the untimely submittal of the annual financial report to the Florida Department of Education (FDOE).
- **Budgetary Control and Financial Condition.** The audit report for the Bradford County School District included a material weakness and material noncompliance finding addressing deficient controls over the District's budgetary process. The deficient controls contributed to the 59 percent decline in the District's General Fund total assigned and unassigned fund balance and financial condition ratio of 2.05 percent at June 30, 2021. As a result, the District had fewer resources for emergencies and unforeseen situations.
- **School Internal Funds.** Glades and Hardee County School Districts reported the financial activities of school internal funds in the aggregate remaining fund information on their financial statements. However, audits of the school internal funds were not available for consideration in the preparation or audit of the Districts' financial statements. Consequently, without those audits, the Auditor General issued qualified opinions on the aggregate remaining fund information reported for those Districts.
- **Capital Assets.** The audit report for the Leon County School District addressed control deficiencies over the process for reconciling capital asset subsidiary ledgers to the accounting records.

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

⁶ In comparison, for the 2019-20 fiscal year, four audit reports included material weaknesses and no audit reports included a material noncompliance finding.

Financial Statement Significant Deficiency and Additional Matter Findings

Findings included in 43 school districts' audit reports for the 2020-21 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 20 school districts, various information technology (IT) control deficiencies were noted in the areas of access controls, logging and monitoring, user authentication, and disaster recovery plans, as well as other areas related to IT.

- **Access Controls.** Audit reports for 18 school districts addressed various IT access control deficiencies. Specifically:
 - At 12 school districts, inappropriate or unnecessary IT access privileges to sensitive personal information of students existed.
 - At 6 school districts (including 2 cited for inappropriate access privileges to sensitive student information), certain employees had full update access privileges to IT financial or human resources applications or components that allowed them to perform functions incompatible or inconsistent with their assigned job duties.
 - 5 school districts (including 3 cited for inappropriate access privileges to sensitive student information) did not timely deactivate former employee IT access privileges. Effective access controls help protect data and IT resources from unauthorized disclosure, modification, or destruction.
- **Logging and Monitoring.** Audit reports for 3 school districts (including 2 cited for access control deficiencies) noted inadequate security control procedures over logging or monitoring IT system activities. Without adequate security controls related to system activity logging and monitoring, the risk is increased that inappropriate or unauthorized activity, should it occur, may not be timely detected and resolved.
- **User Authentication.** Audit reports for 2 school districts (also cited for access control deficiencies) addressed the need for improvements in security controls related to user authentication for IT applications. Adequate security controls related to user authentication help ensure that unauthorized individuals do not gain access to and compromise the confidentiality, integrity, and availability of school district data and related IT resources.
- **Disaster Recovery Plans.** Audit reports for 2 school districts (also cited for access control deficiencies) addressed the need for improvements in their existing IT disaster recovery plans. One lacked certain necessary critical elements and details and another school district had established an IT disaster recovery plan but had not tested the plan. The absence of critical elements and details from a district disaster recovery plan and the lack of annual testing of the plan may hinder district efforts to minimize the impact of, and timely recover from, a disaster or a disruption of operations.
- **Other.** Other IT findings addressed, for example, the lack of a data loss prevention program; improvements needed over a security awareness training program; and the lack of written IT policies and procedures.

Financial Record Keeping and Records Management. In addition to the previously discussed material weaknesses or material noncompliance reported for 8 school districts (Bay, Bradford, Glades, Hardee, Leon, Pasco, Pinellas, and Putnam), the audit reports for 17 other school districts included findings citing

certain record keeping and financial records management deficiencies. Specifically, findings were noted in the areas of financial reporting, budgetary controls, capital assets, and public meetings.

- **Financial Reporting.** At 9 school districts, procedures needed improvements to ensure the accuracy and completeness of the financial statements. While most of the financial reporting findings identified procedural deficiencies that caused financial misstatements requiring audit adjustments to properly present the financial statements, supplementary information, or other required supplementary information, findings at 2 school districts addressed the need for enhancements in accountability over school internal funds to ensure that school internal funds audit reports are promptly obtained and considered in completing district financial statements.
- **Budgetary Controls.** Five school districts were cited for deficient budgetary controls. These school districts did not always limit expenditures to budgeted amounts, contrary to State law⁷ and SBE rules.⁸
- **Capital Assets.** Four school districts (including 2 cited for financial reporting deficiencies) needed enhancements in controls over tangible personal property or other depreciable capital assets. The noted deficiencies related to physical inventory and reconciliation procedures and the depreciation calculation process.
- **Public Meetings.** At one school district, advisory councils did not always adopt bylaws establishing procedures for holding public meetings and recording meeting minutes, contrary to State law.⁹

Payroll and Personnel. Audit report findings for 15 school districts addressed the need to improve controls over payroll and personnel. Specifically, findings were noted in the areas of background screenings, performance evaluations and salary schedules, and ethical conduct and employment practices, as well as other areas related to payroll and personnel.

- **Background Screenings.** For 11 school districts, procedures for performing background screenings of school district employees or contracted vendors with direct student contact were not adequate.
- **Performance Evaluations and Salary Schedules.** Three school districts (including 2 cited for background screening deficiencies) had not adopted salary schedules that provided annual salary adjustments for instructional personnel or school administrators based on performance as required by State law.¹⁰ Additionally, 1 of these school districts did not conduct school administrator performance evaluations, contrary to State law,¹¹ and another school district did not provide instructional personnel with differentiated pay based on school demographics, critical shortage areas, and level of job performance difficulties, contrary to State law.¹²
- **Ethical Conduct and Employment Practices.** Four school districts (including 3 cited for background screening deficiencies) needed to enhance procedures for communicating information about former district employees to potential employers. Also, 3 of these school districts needed to enhance procedures to ensure that district employees complete training on the standards of ethical conduct and the responsibility to report alleged misconduct affecting the health, safety, or welfare of a student.

⁷ Section 1011.05, Florida Statutes.

⁸ SBE Rule 6A-1.007(2), Florida Administrative Code.

⁹ Section 1001.452(1)(d), Florida Statutes.

¹⁰ Section 1012.22(1)(c)4. and 5., Florida Statutes.

¹¹ Section 1012.34, Florida Statutes.

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

- **Other.** For 3 school districts (including 1 cited for ethical conduct and employment practices), payroll and personnel findings addressed control deficiencies over terminal leave payments and payroll processing procedures.

Expenditures and Purchasing. For eight school districts, contract monitoring and related payment procedures needed enhancements 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. Another school district's records did not clearly demonstrate that a district IT system purchase was in accordance with SBE rules¹³ and at the lowest price consistent with desired quality. Additionally, records at two other school districts did not demonstrate that the school district selected an energy savings consultant, custodial services, or health insurance pursuant to the competitive selection requirements in SBE rules¹⁴ or State law.¹⁵ In addition, for two school districts (including one cited for contract monitoring control deficiencies), procedures over purchasing cards needed improvement to ensure effective monitoring of purchasing card transactions or timely cancellation of accounts upon an employee's separation from employment.

Capital Outlay Expenditures and Related Activities. Audit report findings for four school districts addressed the need to improve controls over capital outlay expenditures and related activities. Specifically, for one school district, improvements were needed in controls over construction management entity (CME) guaranteed maximum price and subcontractor contract monitoring. Another school district did not document compliance with the statutory competitive negotiation process¹⁶ for selecting construction or design service firms, document compliance with the statutory requirement that a registered architect be used for applicable design services, or document compliance with the statutory requirement¹⁷ for construction payment and performance bonds. Additionally, audit reports for two other school districts noted records at the school districts did not evidence that ad valorem tax levy proceeds were used in accordance with applicable statutory provisions.

School Safety. For 23 school districts, audit report findings addressed control deficiencies related to school safety policies and procedures, including those related to safe-school officers, mental health care assistance and services, and emergency drills.

- **Safe-School Officers.** Audit reports for 17 school districts addressed control deficiencies relating to safe-school officers. For example, those school districts did not always maintain documented verifications that safe-school officers were appropriately trained as required by State law¹⁸ or that at least one safe-school officer was assigned during school hours at each school facility.
- **Mental Health Care Assistance and Services.** Audit reports for 15 school districts (including 9 cited for deficiencies in safe-school officer services) addressed control deficiencies over mental health care assistance and services. Fourteen of these school districts did not always provide for required mental health awareness training pursuant to State law¹⁹ and 2 of the 14 and another

¹³ SBE Rule 6A-1.012(14), Florida Administrative Code.

¹⁴ SBE Rule 6A-1.012, Florida Administrative Code.

¹⁵ Section 112.08(2)(a), Florida Statutes.

¹⁶ Section 287.055, Florida Statutes.

¹⁷ Section 255.05(1), Florida Statutes.

¹⁸ Section 1006.12, Florida Statutes.

¹⁹ Section 1012.584, Florida Statutes.

school district did not provide mental health awareness student instruction in accordance with to SBE rules.²⁰

- **Emergency Drills.** Twelve school districts (including 11 cited for deficiencies in safe-school officer services and 1 cited for deficiencies in mental health care assistance and services) did not always comply with emergency drill requirements specified in State law²¹ and the Fire Code.²² 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.

Adult General Education Classes. Although General Appropriations Act proviso language²³ required each school district to report enrollment for adult general education programs identified in State law²⁴ in accordance with SBE rules²⁵ and FDOE instructional hours reporting procedures,²⁶ six school districts were cited for misreporting enrollment data. Since future funding is based, in part, on enrollment data reported to the FDOE, it is important that such data be reported correctly.

Various Other Matters. In addition to the audit findings described above, findings addressing various other matters were included in school district audit reports. These matters included, for example, the need for enhanced procedures for monitoring charter school closures, verifying health insurance participant eligibility, monitoring the financial condition of food service programs, collecting childcare fees, performing bank reconciliations, monitoring virtual instruction program operations, and performing and overseeing other activities.

Federal Awards Findings

The audit reports for 11 school districts included a total of 16 Federal awards findings (15 findings related to major Federal programs and 1 finding related to a nonmajor Federal program). These findings addressed the Federal compliance requirements of Allowable Costs and Cost Principles; Cash Management; Eligibility; Equipment and Real Property Management; Matching, Level of Effort, Earmarking – Maintenance of Effort; Reporting; and Special Tests and Provisions and related to the Education Stabilization Fund, Special Education Cluster, Child Nutrition Cluster, Federal Pell, English Language Acquisition State Grants, Supporting Effective Instruction State Grants, and Title I programs.

One of the 11 school district audit reports noted a noncompliance and material weakness in internal control over compliance finding for a major Federal program, resulting in a qualified opinion on the program (Jackson County School District).²⁷ We also noted that 7 of these 11 school districts had a total of 12 noncompliance or significant deficiency findings that were material to applicable compliance

²⁰ SBE Rule 6A-1.094124, Florida Administrative Code.

²¹ Section 1006.07(4), Florida Statutes.

²² Section 20.2.4.2.3 of the Florida Fire Prevention Code, 7th Edition (2020).

²³ Chapter 2020-111, Laws of Florida, Specific Appropriation 126.

²⁴ Section 1004.02(3), Florida Statutes.

²⁵ SBE Rule 6A-10.0381(5), Florida Administrative Code.

²⁶ FDOE's Technical Assistance Paper: *Adult General Education Instructional Hours Reporting Procedures*, Dated September 2020.

²⁷ In comparison, for the 2019-20 fiscal year, one school district was cited with noncompliance and material weakness in internal control over compliance for a major Federal program.

requirement types for major Federal programs. Additionally, 2 other school districts each had a control deficiency finding related to internal control over a major Federal program.

For the 2020-21 fiscal year, 5 school district audit reports each had a finding or findings that identified Federal program questioned costs. The known questioned costs for these 5 school districts ranged from \$35,759 to \$994,795 and totaled \$1,734,488. In comparison, for the 2019-20 fiscal year, 7 school district audit reports each had a finding or findings that identified Federal program questioned costs ranging from \$37,190 to \$301,067 and totaling \$866,350. Questioned costs include costs of goods or services charged to one or more Federal programs that are not allowed under the applicable grant terms, not clearly supportive of the Federal program’s purposes, not documented in the manner prescribed by applicable Federal cost principles or State or school district policies, or not incurred during the grant period. If the applicable grantor disallows questioned costs, a school district may have to repay the costs from non-Federal sources.

FINANCIAL TRENDS

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)²⁸ 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,²⁹ 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.

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

²⁸ GFOA Best Practice, *Fund Balance Guidelines for the General Fund* (September 2015).

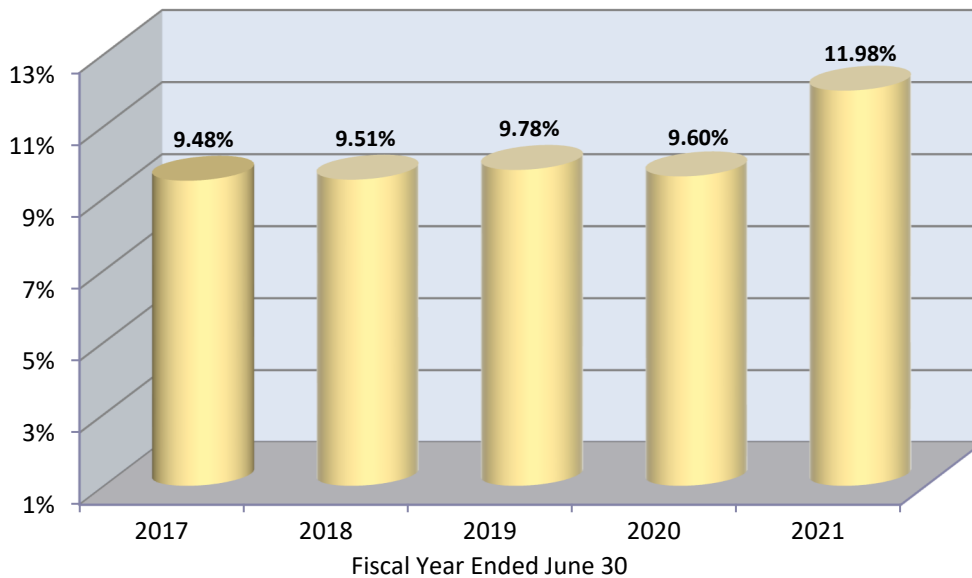
²⁹ Section 1011.051, Florida Statutes.

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, 2017, through June 30, 2021. As shown in Chart 1, the average financial condition ratio was 11.98 percent at June 30, 2021, which was significantly more than the average financial condition ratios at the end of the previous 4 fiscal years. The significant increase was mainly because, during the 2020-21 fiscal year, school districts received and used Federal funds for COVID-19 pandemic relief instead of using other operating resources, and experienced reduced salary and benefit costs due to unfilled positions.

Chart 1
Average Financial Condition Ratios of School Districts
For the Fiscal Years Ended June 30, 2017, Through June 30, 2021



State law³⁰ 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 respective school board.

For the fiscal year ended June 30, 2021, only the Bradford County School District had a financial condition ratio below 3 percent. As discussed in the section **Financial Statement Material Weakness and Material Noncompliance Findings**, deficient controls over the Bradford County School District's budgetary process contributed to the District's 2.05 percent financial condition ratio at June 30, 2021. As a result, the District had significantly fewer resources available for emergencies and unforeseen

³⁰ Section 1011.051(1), Florida Statutes.

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 the Commissioner of Education determines that a school district with an approved operating budget that is projected to fall below 2 percent does not have a plan that is reasonably anticipated to avoid a financial emergency, the Commissioner is to appoint a financial emergency board to implement measures to assist the school board in resolving the financial emergency.³¹ Pursuant to State law,³² 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. No school districts' financial condition ratios were below 3 percent at the end of the fiscal years June 30, 2018, through June 30, 2020; however, at June 30, 2017, two school districts had financial condition ratios below 2 percent. These two districts were able to develop appropriate plans to avoid financial emergencies and their financial condition ratios improved by the end of the following fiscal year.

Table 2 shows the school districts with the largest financial condition ratio increases and decreases between the fiscal years ended June 30, 2017, and June 30, 2021. While the largest ratio increases may indicate that a school district is experiencing better financial health and solvency, large decreases may prompt school district management to consider whether resources are being used most efficiently for district needs. As further discussed in the section **Factors Impacting Financial Condition**, factors that may have impacted these changes include property taxable values and changes in student enrollment.

Table 2
Changes in Financial Condition Ratios and Fund Balances ^a
Between June 30, 2017, and June 30, 2021

| School District | Financial Condition Ratios at June 30 | | | Fund Balances at June 30 (In Thousands) | | |
|--------------------------------|--|--------|----------|--|-----------|-----------|
| | 2017 | 2021 | Change | 2017 | 2021 | Change |
| Largest Ratio Increases | | | | | | |
| 1 Calhoun | 16.99% | 79.91% | 62.92% | \$ 3,001 | \$ 14,559 | \$ 11,558 |
| 2 Walton | 27.07% | 50.18% | 23.11% | 22,245 | 53,417 | 31,172 |
| 3 Bay | 12.06% | 31.74% | 19.68% | 25,294 | 81,654 | 56,360 |
| 4 Okeechobee | 9.01% | 27.30% | 18.29% | 4,395 | 14,682 | 10,287 |
| 5 Gulf | 12.74% | 29.75% | 17.01% | 2,194 | 5,515 | 3,321 |
| Largest Ratio Decreases | | | | | | |
| 1 Bradford | 17.84% | 2.05% | (15.79)% | 4,727 | 542 | (4,185) |
| 2 Dixie | 19.85% | 12.17% | (7.68)% | 3,294 | 2,232 | (1,062) |
| 3 Collier | 20.93% | 15.06% | (5.87)% | 84,501 | 68,995 | (15,506) |
| 4 Franklin | 17.01% | 13.34% | (3.67)% | 2,021 | 1,823 | (198) |
| 5 Alachua | 11.53% | 8.77% | (2.76)% | 25,855 | 21,717 | (4,138) |

^a Fund balances represent the total assigned and unassigned fund balances at fiscal year end.

³¹ Section 1011.051(2), Florida Statutes.

³² Section 218.503(3), Florida Statutes.

Factors Impacting Financial Condition

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

Property Taxable Values. Property taxes, which are assessed on property taxable values, are the primary source of local revenue for school districts. According to the Florida Department of Revenue, Statewide property taxable values increased by 29 percent, from \$1.89 trillion in the 2017 calendar year to \$2.44 trillion in the 2021 calendar year. Due to this increase, which was partially offset by decreases in levied millage rates, Statewide property tax levies for school district operations increased by 21 percent, from \$12.65 billion for the 2016-17 fiscal year to \$15.29 billion for the 2020-21 fiscal year.

Declining Enrollment. Over the past 5 years, Statewide student enrollment slightly decreased from 2,766,064 for the 2016-17 fiscal year to 2,740,062 for the 2020-21 fiscal year. A total of 48 school districts experienced enrollment declines ranging from 3 to 18,089 unweighted full-time equivalent students (FTE) during this period. As shown in Table 3, of these 48 school districts, 4 school districts' student enrollments decreased by more than 5 percent and 1,000 FTE.

Table 3
School Districts with Enrollment Decline of
More than 5 Percent and 1,000 Unweighted FTE Students
2016-17 Fiscal Year Through the 2020-21 Fiscal Year

| School District | Unweighted FTE | | | Percent Decrease |
|-----------------|----------------|---------|----------|------------------|
| | 2016-17 | 2020-21 | Decrease | |
| 1 Bay | 27,355 | 24,681 | (2,674) | (9.78)% |
| 2 Volusia | 62,269 | 57,758 | (4,511) | (7.24)% |
| 3 Pinellas | 101,057 | 95,645 | (5,412) | (5.36)% |
| 4 Miami-Dade | 352,993 | 334,904 | (18,089) | (5.12)% |

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.

Increasing Enrollment. While student enrollment decreased in total for school districts from the 2016-17 fiscal year to the 2020-21 fiscal year, 19 school districts had enrollment growth ranging from 29 to 6,601 unweighted FTE during this period. As shown in Table 4, of these 19 school districts, 5 school districts student enrollments increased by more than 5 percent and 1,000 unweighted FTE.

Table 4
School Districts with Enrollment Growth of
More than 5 Percent and 1,000 Unweighted FTE Students
2016-17 Fiscal Year Through the 2020-21 Fiscal Year

| School District | Unweighted FTE | | | Percent Increase |
|-----------------|----------------|---------|----------|------------------|
| | 2016-17 | 2020-21 | Increase | |
| 1 Hendry | 7,282 | 11,801 | 4,519 | 62.06% |
| 2 St. Johns | 38,034 | 44,058 | 6,024 | 15.84% |
| 3 Walton | 8,917 | 10,055 | 1,138 | 12.76% |
| 4 Osceola | 62,561 | 69,162 | 6,601 | 10.55% |
| 5 Pasco | 71,554 | 76,105 | 4,551 | 6.36% |

Although 19 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 make costly hiring and other expenditure decisions based on imprecise FTE projections.

School Size. School sizes vary significantly among and within school districts. Most school districts have varying combinations of large, medium, and small schools. Logically, larger schools have a lower cost per FTE than smaller schools because noninstructional and administrative salary, benefits, and fixed costs are spread over a larger number of FTE. Accordingly, school size is a relevant factor that impacts a school district's financial condition.

Future Financial Trends Considerations

State Funding. For the 2020-21 fiscal year, the base Florida Education Finance Program (FEFP) allocation was \$4,319.49 per weighted FTE, which represents an increase of \$40 over the base FEFP allocation of \$4,279.49 per weighted FTE for the 2019-20 fiscal year. Also, based on the 2021-22 fiscal year FEFP fourth calculation, the base FEFP allocation for the 2021-22 fiscal year increased by \$53.42 per weighted FTE to \$4,372.91. The weighted FTE enrollment in school districts decreased by 74,396, or 2.4 percent, from the 2019-20 to the 2020-21 school year. Conversely, the weighted FTE enrollment in the 2021-22 school year increased by 141,860, or 4.7 percent, based on the 2021-22 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, 2021, consisted primarily of:

- COPs totaling \$9.3 billion (38 school districts).

- General obligation bonds totaling \$1.3 billion (2 school districts).
- Qualified School Construction Bonds (QSCBs) totaling \$940.5 million (20 school districts).
- School district revenue bonds totaling \$905.6 million (28 school districts).
- Qualified Zone Academy Bonds (QZABs) totaling \$190.7 million (13 school districts).
- State Board of Education bonds totaling \$60.6 million (32 school districts).
- Long-term debt notes totaling \$50.7 million (9 school districts).
- Build America Bonds (BABs) totaling \$31.4 million (2 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, 2021, pledged resources were generally sufficient to cover the required debt service by school districts.

School District Trends

Funding Trends. School district governmental funds include the general fund, special revenue funds, debt service funds, and capital projects funds. While substantially all school district resources are accounted for in the governmental funds, school districts frequently have fiduciary funds (custodial and trust funds) and proprietary funds (primarily internal service funds that account for such activities as self-insurance programs). As shown in Table 5, school districts reported revenues of \$34.84 billion in the governmental funds for the 2020-21 fiscal year, an increase of \$2.18 billion (6.68 percent) over the 2019-20 fiscal year.

Table 5
School District Revenues – All Governmental Funds
For the 2019-20 and 2020-21 Fiscal Years

| Governmental Fund Type | 2019-20 | | 2020-21 | | Increase | |
|------------------------|--------------------------------|-----------------------|--------------------------------|-----------------------|-------------------------------|---------------------|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent |
| General Fund | \$23,828,276,446 | 72.95% | \$24,198,453,143 | 69.45% | \$ 370,176,697 | 1.55% |
| Other Funds | 8,834,122,001 | 27.05% | 10,646,457,770 | 30.55% | 1,812,335,769 | 20.52% |
| Totals | <u>\$32,662,398,447</u> | <u>100.00%</u> | <u>\$34,844,910,913</u> | <u>100.00%</u> | <u>\$2,182,512,466</u> | <u>6.68%</u> |

Table 6 shows, by source, the total governmental fund type revenues and the related changes by revenue source reported by school districts for the 2019-20 and 2020-21 fiscal years.

Table 6
School District Revenues by Source – All Governmental Funds
For the 2019-20 and 2020-21 Fiscal Years

| Source | 2019-20 | | 2020-21 | | Increase | |
|---------------|--------------------------------|-----------------------|--------------------------------|-----------------------|--------------------------------|---------------------|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent |
| Federal | \$ 3,468,489,645 | 10.62% | \$ 4,882,907,874 | 14.01% | \$ 1,414,418,229 | 40.78% |
| State | 12,812,042,595 | 39.23% | 12,954,485,619 | 37.18% | 142,443,024 | 1.11% |
| Local | 16,381,866,207 | 50.15% | 17,007,517,420 | 48.81% | 625,651,213 | 3.82% |
| Totals | <u>\$32,662,398,447</u> | <u>100.00%</u> | <u>\$34,844,910,913</u> | <u>100.00%</u> | <u>\$ 2,182,512,466</u> | <u>6.68%</u> |

The \$2.18 billion (6.68 percent) increase in total revenues for the 2020-21 fiscal year consisted of an increase in Federal revenues of \$1.41 billion, an increase in State revenues of \$0.14 billion, and an increase in local revenues of \$0.63 billion. The increase in Federal revenues was primarily due to Education Stabilization Fund moneys, totaling \$1.2 billion, awarded to provide COVID-19 pandemic relief. The increase in local revenues was due, in part, to increases in property taxable values, resulting in additional revenues from the millage levies of \$306 million. In addition, increases in local sales tax and impact fee collections totaling \$150 million and \$105 million, respectively, contributed to the total local revenue increase.

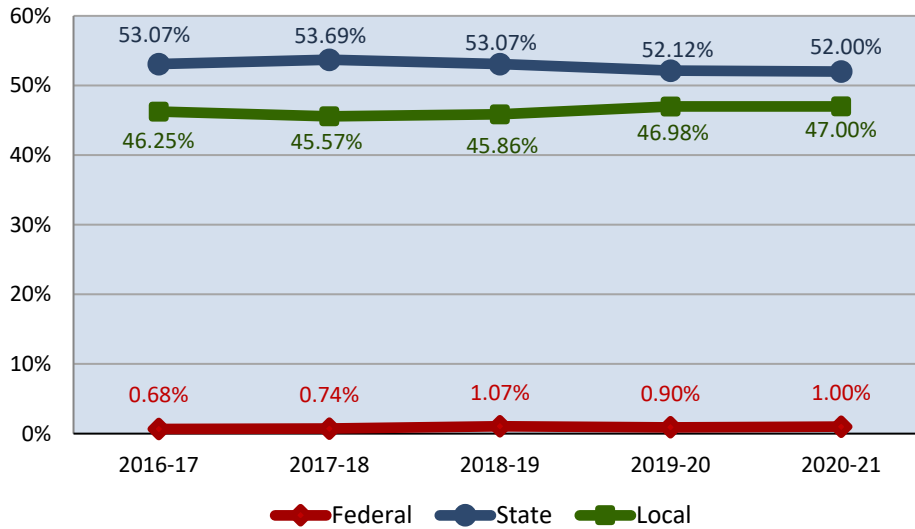
Table 7 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2019-20 and 2020-21 fiscal years, and the related changes in these revenues.

Table 7
School District General Fund Revenues by Source
For the 2019-20 and 2020-21 Fiscal Years

| Source | 2019-20 | | 2020-21 | | Increase | |
|---------------|--------------------------------|-----------------------|--------------------------------|-----------------------|-----------------------------|---------------------|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent |
| Federal | \$ 212,919,795 | 0.90% | \$ 241,403,415 | 1.00% | \$ 28,483,620 | 13.38% |
| State | 12,419,906,723 | 52.12% | 12,583,476,368 | 52.00% | 163,569,645 | 1.32% |
| Local | 11,195,449,928 | 46.98% | 11,373,573,360 | 47.00% | 178,123,432 | 1.59% |
| Totals | <u>\$23,828,276,446</u> | <u>100.00%</u> | <u>\$24,198,453,143</u> | <u>100.00%</u> | <u>\$370,176,697</u> | <u>1.55%</u> |

As shown in Table 7, 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 are reported in special revenue funds. Chart 2 shows the percentage of Statewide general fund revenues from Federal, State, and local sources for the 2016-17 through 2020-21 fiscal years.

Chart 2
Percentage of School District General Fund Revenues
From Federal, State, and Local Sources
For the 2016-17 Through 2020-21 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 for all school districts. FEFP moneys are primarily generated by multiplying the number of FTE 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 \$16.8 billion for the 2020-21 fiscal year, and consisted of \$8.8 billion in State revenues and \$8 billion in local revenues. In addition to the \$8.8 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, and other specific programs.

Other Local Revenues. In addition to the \$8 billion in local revenues (in Table 6) for funding operations as part of the FEFP, the school districts reported \$9 billion in other local revenues. These local revenues included, but were not limited to, \$3.2 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; \$1.7 billion from discretionary local effort millage levies for operations; \$1 billion from special voter levies; and \$80 million from debt service millage levies for servicing debt. Because of early payment discounts, property tax revenues were approximately 96 percent of the tax levy. Additional sources of local revenue included sales taxes, impact fees, charges for services, investment income, and other local sources. Thirty-three school districts reported local sales tax revenues totaling \$1.3 billion for the 2020-21 fiscal year, while 30 school districts reported local sales tax revenues totaling \$1.15 billion for the 2019-20 fiscal year. Twenty-eight school districts reported impact fee revenues totaling \$590 million for the 2020-21 fiscal year, while 27 school districts reported impact fee revenues totaling \$485 million for the 2019-20 fiscal year. Impact fees were in place during the 2020-21 fiscal year for 6 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 grantors³³ for specific program purposes, such as those of the Title I and National School Lunch Act programs. As discussed in the **Funding Trends** section, for the 2020-21 fiscal year, there was a significant increase in Federal revenues to school districts for COVID-19 pandemic relief including, for example, the Education Stabilization Fund and the Coronavirus Relief Fund. 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 2020-21 fiscal year totaled \$0.9 billion, compared to \$1.4 billion for the 2019-20 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.

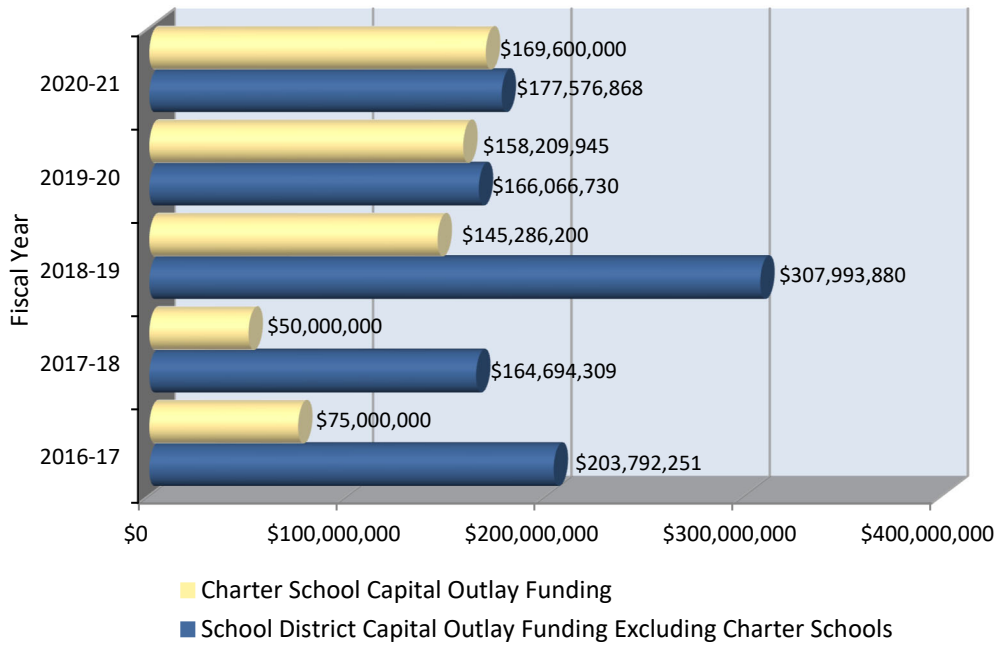
State Capital Outlay Appropriations. Certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,³⁴ are provided for school district new construction and facilities maintenance projects. These State capital outlay appropriations have included PECO, educational facilities security grants, Classrooms First, 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.³⁵ As shown in Chart 3, during the 5-year period 2016-17 through 2020-21, State capital outlay funding to school districts, excluding funding to charter schools, ranged from a low of \$165 million for the 2017-18 fiscal year to a high of \$308 million for the 2018-19 fiscal year. During that same 5-year period, State capital outlay appropriations for charter schools ranged from a low of \$50 million for the 2017-18 fiscal year to a high of \$170 million for the 2020-21 fiscal year.

³³ Most Federal revenues are provided to school districts through State agencies.

³⁴ Section 1013.65, Florida Statutes.

³⁵ Article XII, Sections 9(a)(2) and 9(d) of the State Constitution.

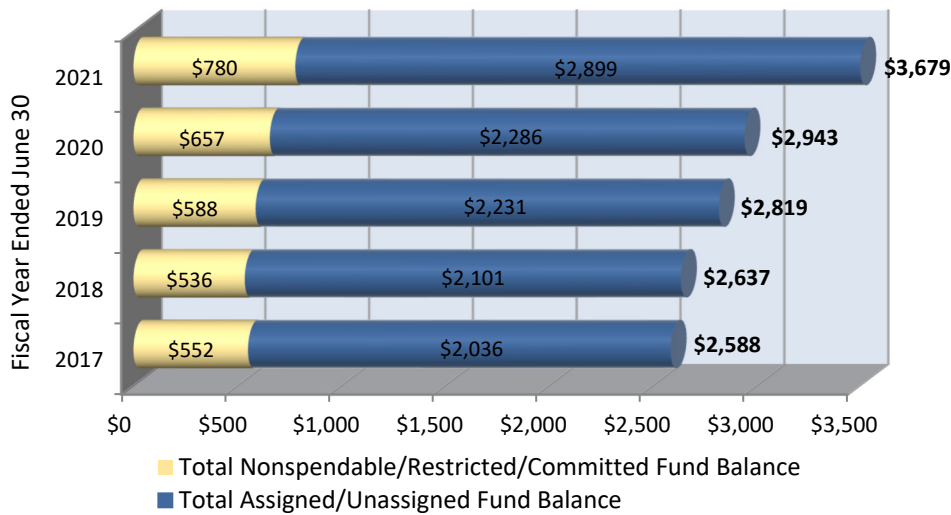
**Chart 3
State Capital Outlay Appropriations
For the 2016-17 Through 2020-21 Fiscal Years**



The \$11.5 million increase in State capital outlay appropriations to school districts for the 2020-21 fiscal year was composed of increases in PECO and CO&DS funding of \$11.2 million and \$0.3 million, respectively. The school district State capital outlay appropriations for the 2018-19 fiscal year were relatively high, primarily due to the increased educational facilities security funding for that specific fiscal year.

Fund Balance Trends. As shown in Chart 4, the total fund balances of the school district general funds (operating funds) increased from \$2.6 billion to \$3.7 billion over the past 5 years. The fund balance increase of \$736 million from the fiscal year ended June 30, 2020, to June 30, 2021, can be attributed, in part, to additional Federal funds received for COVID-19 pandemic relief, and used instead of other operating resources, and salary and benefit cost reductions due to unfilled positions at certain school districts.

Chart 4
Fund Balances of the General Fund
For the Fiscal Years Ended June 30, 2017, Through June 30, 2021
(in Millions)



The total assigned and unassigned portions of the general fund balance represent the amount that may be used with the most flexibility for emergencies and unforeseen situations. During the 5-year period shown in Chart 4, the total assigned and unassigned portions of the general fund balance increased each year from \$2 billion at June 30, 2017, to \$2.9 billion at June 30, 2021.

OTHER MATTERS OF INTEREST

Findings Repeated from Previous Audit Reports

State law³⁶ requires the Auditor General to notify the Legislative Auditing Committee (LAC) of any audit report prepared for a district school board that indicates the district school board failed to take full corrective action in response to a recommendation that was included in the two preceding financial or operational audit reports. Of the 176 findings³⁷ included in the 2020-21 fiscal year audit reports issued during the period July 1, 2021, through June 30, 2022, 11 findings (6 percent) were also included in the two preceding financial or operational audit reports. In comparison, 7 (5 percent) of the 144 findings included in the audit reports issued during the period July 1, 2020, through June 30, 2021, had also been included in the two preceding financial or operational audit reports.

Pursuant to State law, on June 30, 2022, we notified the LAC of the nine district school boards that failed to take full corrective action in response to one or more recommendations included in the two preceding audit reports. Our notification for audit reports issued during the period July 1, 2019, through June 30, 2020, included seven district school boards.

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

³⁷ The 176 findings were included in the 2020-21 fiscal year audit reports issued during the period July 1, 2021, through June 30, 2022. In total, there were 185 findings included in 2020-21 fiscal year audit reports, as discussed under the heading **Classification of Audit Findings**.

School District Fiscal Transparency

State law³⁸ requires the Auditor General to annually transmit to legislative leadership (President of the Senate and Speaker of the House) and the Florida Department of Financial Services (FDFS) 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. In addition, the information posted on the school district Web site must include graphical representations, for each public school, of summary financial efficiency data and fiscal trend information for the previous 3 years, and a link to the Web-based fiscal transparency tool developed by the FDOE. The law also includes a list of items recommended for inclusion on the Web sites, such as budget hearing information, contracts with teachers' unions and noninstructional staff, and contracts with vendors exceeding \$35,000. Readily available information and fiscal transparency leads to more responsible spending, more citizen involvement, and improved accountability.

Pursuant to State law, on July 15, 2022, we notified legislative leadership and the FDFS of 11 district school boards, shown in Table 8, that failed to comply with the transparency requirements for the 2020-21 fiscal year. Nineteen district school boards were included in our notification for the 2019-20 fiscal year.⁴⁰

Table 8
School Districts Cited in an Audit
For Noncompliance with Section 1011.035(2), Florida Statutes
For the 2020-21 Fiscal Year

| School District | |
|-----------------|-----------|
| 1 | Clay |
| 2 | Collier |
| 3 | Columbia |
| 4 | Glades |
| 5 | Gulf |
| 6 | Hardee |
| 7 | Hendry |
| 8 | Holmes |
| 9 | Levy |
| 10 | Polk |
| 11 | St. Lucie |

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

³⁹ Section 1011.035, Florida Statutes.

⁴⁰ None of the 19 district school boards cited for noncompliance with the transparency requirements for the 2019-20 fiscal year were cited for transparency requirement noncompliance for the 2020-21 fiscal year.

Corrective Action Notification

State law⁴¹ requires the Auditor General to contact each district school board (school district) and request evidence of corrective action to address the Auditor General's previous operational audit report findings and recommendations. The school district must provide the Auditor General with evidence of the initiation of corrective action within 45 days after the request and completion of corrective action within 180 days after the request. If the school district fails to comply with the Auditor General's request or is unable to take corrective action within the required time frame, the Auditor General must notify the LAC.

Pursuant to State law, on June 30, 2022, we notified the LAC of the nine school districts (Bradford, Citrus, Clay, Hernando, Lafayette, Levy, Monroe, Orange, and Polk) that were unable to provide us, within 180 days after requests, evidence that corrective action were made for findings in audit reports issued during the period January 1, 2021, through December 31, 2021.

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, 2021, for the 45 school district financial audits and 27 school district operational audits completed by the Auditor General and the 22 school district financial audits completed by other independent CPAs and filed with the Auditor General.

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

AUTHORITY

Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of significant findings and financial trends identified in district school board audit reports for the fiscal year ended June 30, 2021.



Sherrill F. Norman, CPA
Auditor General

⁴¹ Section 11.45(7)(k), Florida Statutes.