REPORT NO. 2013-029
OCTOBER 2012

REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2010-11 FISCAL YEAR AUDITS OF DISTRICT SCHOOL BOARDS

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

This review was coordinated by Jennifer K. Blanca, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2010-11 FISCAL YEAR AUDITS OF DISTRICT SCHOOL BOARDS

SUMMARY

This report provides a summary of significant financial trends and findings identified in the audits of the 67 district school boards. For the 2010-11 fiscal year, audits of 47 school districts were performed by our office and audits of 20 school districts were performed by other independent certified public accountants (CPAs). The audit reports prepared by the other independent CPAs were required to be filed with us no later than June 30, 2012.

Significant Financial Trends

- **At June 30, 2011, school districts Statewide had an average level of general fund assigned and unassigned fund balance that was 14.47 percent of general fund revenues (financial condition ratio), which represents an increase of more than 2 percent over the average financial condition ratio for the previous fiscal year. Of the 67 school districts, only one had a ratio that was less than 3 percent at June 30, 2011, although another's ratio declined below 3 percent as of December 1, 2011. In these circumstances, these school districts had significantly less resources available for emergencies and unforeseen situations than other school districts.**

Significant Findings

- **The audit reports for 61 of 67 school districts included audit findings addressing weaknesses in internal control or instances of noncompliance with applicable laws or rules. Audit reports of five school districts included one or more findings that were considered to be material weaknesses, which represents a significant decrease from the nine audit reports that included material weaknesses for the previous fiscal year.**

BACKGROUND

Sections 11.45 and 218.39, Florida Statutes, provide for audits of district school boards to be performed annually by the Auditor General or by other independent CPAs. The scope of these audits includes an examination of the financial statements, the issuance of a report on compliance and internal control in accordance with generally accepted government auditing standards, and the issuance of a report on compliance and internal control relative to Federal awards in accordance with United States Office of Management and Budget Circular A-133.

Section 11.45(7)(f), Florida Statutes, requires that we annually compile a summary of significant financial trends and findings identified in school district audit reports.

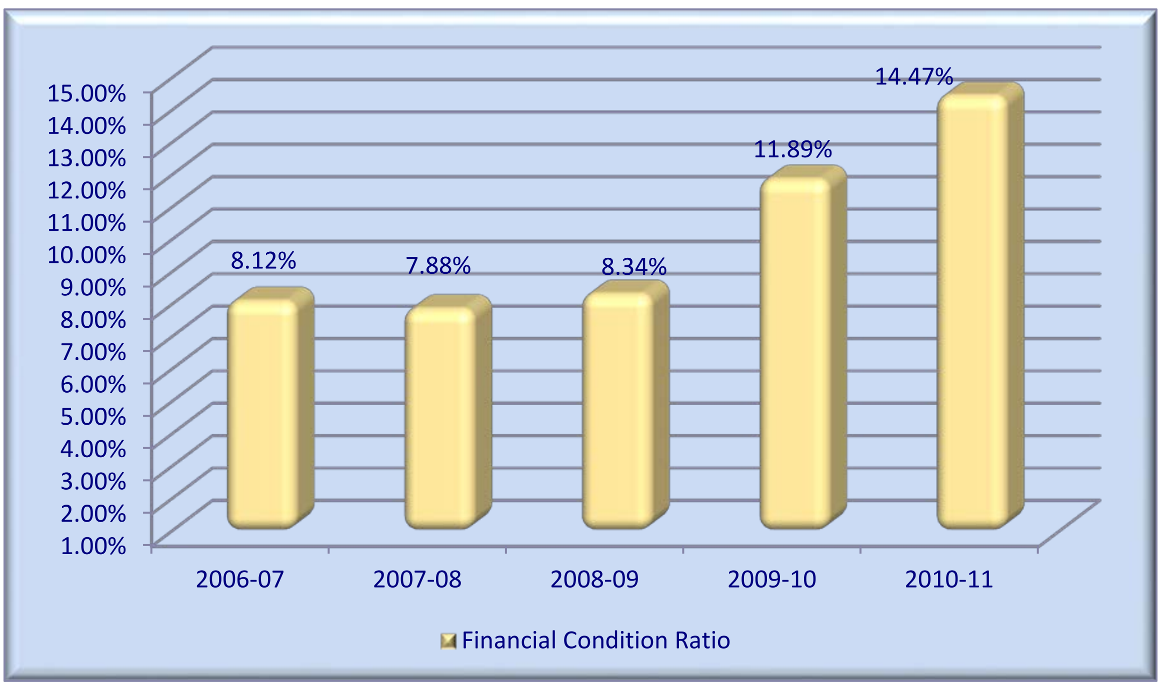
FINANCIAL TRENDS

Section 11.45(7)(f), Florida Statutes, along with other inquiries, evidences that critical interest exists to understand and address factors that affect the financial condition of school districts. The financial condition of school districts can be assessed by a review of the general fund balances and activities, which account for the majority of the operating resources and expenditures for K-12 educational programs. Consequently, the general fund is used as the primary basis for measurement of financial condition.

Financial Condition Trends

The financial condition measure used in this report is the ratio of the assigned and unassigned fund balance to the revenues in the general fund (see Exhibit 12). The average financial condition ratio[1] was 14.47 percent at June 30, 2011, which is more than a 2 percent increase over the average financial condition ratio for the previous fiscal year. The notable increases for the 2009-10 and 2010-11 fiscal years are primarily due to the school districts' receipt and use of American Recovery and Reinvestment Act (ARRA) and other Federal economic stimulus funds for certain allowable operating expenditures. The Florida Department of Education (FDOE) required school districts to account for these funds in special revenue funds, rather than the general fund. As discussed in the **American Recovery and Reinvestment Act and Other Federal Funding** section, with the exception of the Race-to-the-Top grant, most ARRA funding terminated with the 2010-11 fiscal year. Exhibit 1 shows the average financial condition ratio during the five-year period ending with the 2010-11 fiscal year.

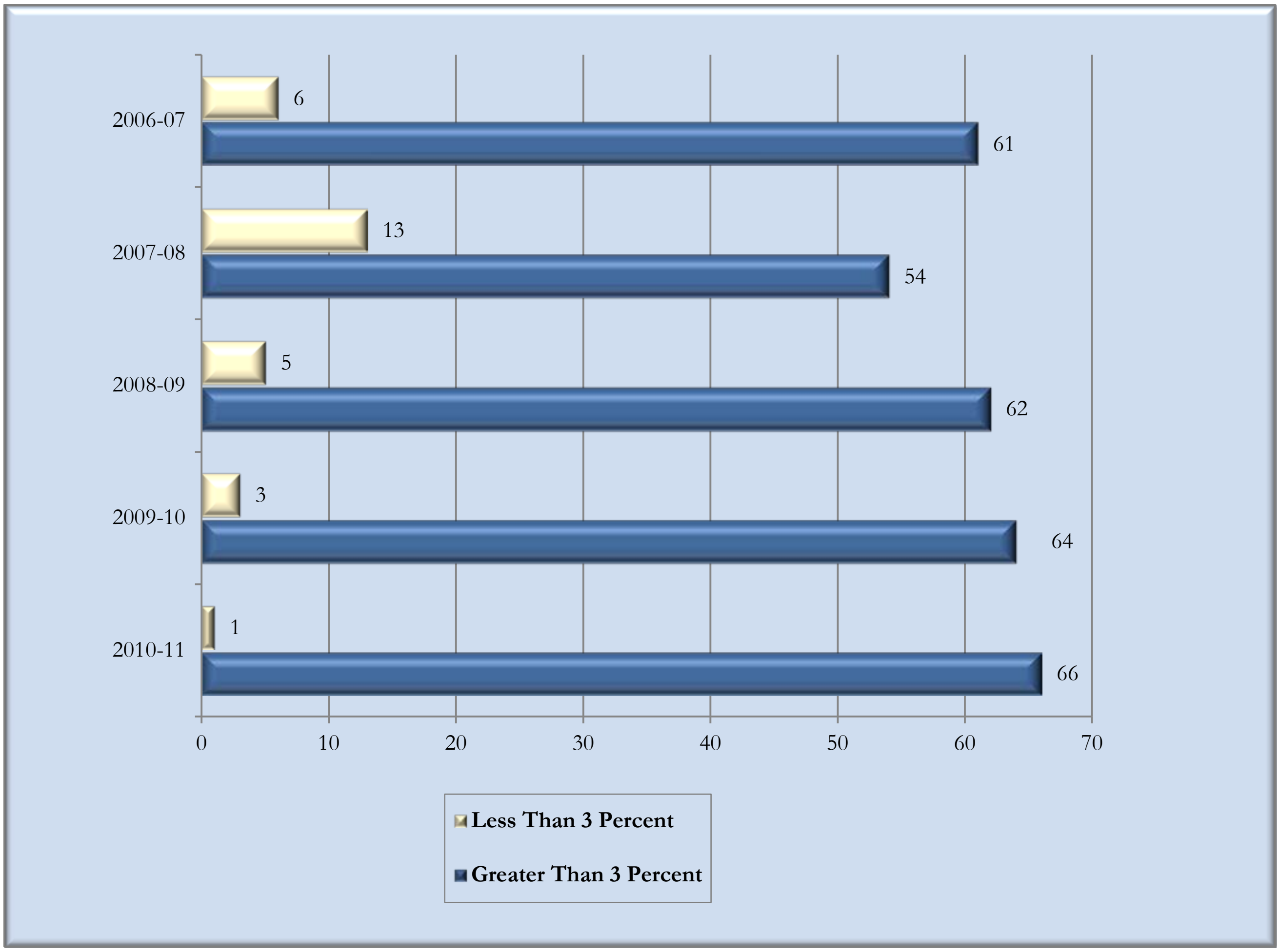
Exhibit 1
Average Financial Condition Ratios
for School Districts



Section 1011.051, Florida Statutes, requires school district superintendents to notify the Commissioner of Education and respective school board if the general fund's ending fund balance not classified as restricted, committed, or nonspendable (i.e., assigned and unassigned fund balances) in the school district's approved operating budget is projected to fall below 3 percent of projected general fund revenues during the current fiscal year. For consistency with this statutory requirement, Exhibit 2 shows the number of school districts with ratios of less than 3 percent during the five-year period ending with the 2010-11 fiscal year.

[1] For comparison purposes, unassigned/assigned fund balance classification pursuant to Governmental Accounting Standards Board (GASB) Statement No. 54 is similar to unreserved fund balance used in calculating the financial condition ratio prior to the 2010-11 fiscal year. See Exhibits 11 and 12.

Exhibit 2
Number of School Districts with Financial Condition
Ratios Above and Below 3 Percent



As indicated in Exhibit 2, the number of school districts with financial condition ratios that were less than 3 percent at fiscal year-end has decreased over the past five years to only one school district at June 30, 2011. This school district has significantly less resources available for emergencies and unforeseen situations than other school districts. In addition, Exhibit 3 identifies the financial condition of this school district and the number of consecutive years that its financial condition ratio was under 3 percent.

Exhibit 3
School District with Financial Condition
Ratio[2] Less Than 3 Percent

School District	Financial Condition Ratio - 06-30-2011	Number of Consecutive Years Ratio Under 3%
Manatee	1.21%	4

The financial condition ratio of several other school districts was under the above-noted threshold at certain times during the five-year period, but not at June 30, 2011. Historically, school districts that experience a weak financial condition implement measures that generally restore their financial condition to a favorable position within one or two fiscal years.

Pursuant to Section 1011.051, Florida Statutes, during the 2010-11 fiscal year, one school district (Manatee) notified the Commissioner of Education that the general fund assigned and unassigned fund balance in its operating budget was projected to fall below the 3 percent threshold, representing a decrease from the three school districts that submitted such notifications in the previous fiscal year. In addition, as of December 1, 2011, another school district (Monroe) submitted a notification to the Commissioner of Education for falling below the 3 percent threshold as discussed in the **Significant Deficiencies and Additional Matters** section.

Factors Impacting Financial Condition

As previously discussed, the 2009-10 and 2010-11 fiscal year financial condition ratios were significantly impacted by the receipt and use of ARRA and other Federal economic stimulus funding. 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 weak financial condition. While no single factor is identified as a guaranteed predictor of financial condition, factors such as declining property values, declining or increasing enrollment, and school and class sizes require the exercise of effective financial management to limit the impact on the school districts' financial condition.

Declining Property Taxes. Property taxes are the primary source of local revenues for school districts, and as part of the overall general economic decline, property values have decreased Statewide. According to the Florida Department of Revenue, Statewide property values declined from $1.8 trillion in calendar year 2008, to $1.4 trillion in calendar year 2011, a decrease of 22.22 percent. As a result, Statewide property tax levies for school district operations declined from $13 billion for the 2007-08 fiscal year to $10.6 billion for the 2010-11 fiscal year, a decrease of 18.46 percent.

Declining Enrollment. Although Statewide enrollment decreased from 2,631,960 for the 2005-06 fiscal year to 2,613,726 for the 2010-11 fiscal year, student enrollment actually increased for the two most recent fiscal years in that period. The largest decline was noted from the 2007-08 fiscal year to the 2008-09 fiscal year, and totaled 18,600. This decline was caused, in part, by a decrease in Florida's general population, which was the first general population

[2] The "purchases" inventory method provides that the inventory amount be included in the amount reported as nonspendable fund balance and excluded from the amount reported as unassigned fund balance. Also, nonspendable investments, such as State Board of Administration Fund B Surplus Funds Trust Fund (Fund B), are typically reported in the amount reported as nonspendable fund balance and excluded from the amount reported as unassigned fund balance. For purposes of Exhibit 3, as the school district did not use the "purchases" inventory method and included inventory and Fund B investment amounts in the amount reported as unassigned fund balance, the ratio calculation was adjusted to reduce the unassigned fund balance amount to exclude inventory and Fund B investment amounts because such reporting results in a more conservative presentation of unassigned fund balance.

reduction since calendar year 1946.[3] A slight increase in student enrollment of 9,000 was noted for the 2010-11 fiscal year. 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.

Exhibit 4 shows 34 school districts that had declining enrollment of more than 1 percent over the five-year period. School districts in this situation, particularly the smaller school districts, experience difficulty with these gradual enrollment declines, as it is difficult to reduce instructional staff because often no one grade or class within an individual school may be affected enough to justify the reduction of instructional staff.

[3] According to the Bureau of Economic and Business Research at the University of Florida (estimate) and the United States 2010 Census, from April 2008 to December 2010, the State's population dropped from 18,807,219 to 18,801,310, a decrease of 5,909.

Exhibit 4
School Districts with Declining Enrollment over Five Years

Number	School District	2010-11 Unweighted FTE*	2005-06 Unweighted FTE*	Decrease	Percentage Decrease
1	Bradford	3,126.53	3,575.92	(449.39)	-12.57%
2	Jefferson	1,058.96	1,189.71	(130.75)	-10.99%
3	Madison	2,699.84	3,028.50	(328.66)	-10.85%
4	Hamilton	1,697.58	1,890.48	(192.90)	-10.20%
5	Hendry	6,816.47	7,506.99	(690.52)	-9.20%
6	Washington	3,714.05	4,087.57	(373.52)	-9.14%
7	Levy	5,616.44	6,166.01	(549.57)	-8.91%
8	Putnam	10,881.61	11,890.15	(1,008.54)	-8.48%
9	Gulf	1,953.07	2,133.72	(180.65)	-8.47%
10	Gilchrist	2,548.39	2,769.16	(220.77)	-7.97%
11	Pinellas	103,142.24	111,425.35	(8,283.11)	-7.43%
12	Okeechobee	6,754.65	7,274.26	(519.61)	-7.14%
13	Okaloosa	28,582.06	30,701.83	(2,119.77)	-6.90%
14	Bay	25,126.91	26,947.23	(1,820.32)	-6.76%
15	Charlotte	16,274.34	17,444.52	(1,170.18)	-6.71%
16	Escambia	39,909.26	42,668.49	(2,759.23)	-6.47%
17	Taylor	2,845.58	3,040.15	(194.57)	-6.40%
18	Volusia	61,410.23	65,235.12	(3,824.89)	-5.86%
19	Jackson	6,849.22	7,212.32	(363.10)	-5.03%
20	Alachua	26,873.13	28,238.26	(1,365.13)	-4.83%
21	Seminole	63,907.27	66,949.65	(3,042.38)	-4.54%
22	Dixie	2,027.18	2,120.13	(92.95)	-4.38%
23	Monroe	7,964.72	8,327.57	(362.85)	-4.36%
24	Broward	255,690.23	267,151.95	(11,461.72)	-4.29%
25	Gadsden	5,839.58	6,099.39	(259.81)	-4.26%
26	Brevard	71,212.66	74,040.69	(2,828.03)	-3.82%
27	Miami-Dade	345,375.65	358,140.97	(12,765.32)	-3.56%
28	Columbia	9,797.37	10,133.46	(336.09)	-3.32%
29	Franklin	1,255.28	1,290.86	(35.58)	-2.76%
30	Sarasota	40,879.01	41,898.14	(1,019.13)	-2.43%
31	Calhoun	2,188.12	2,235.32	(47.20)	-2.11%
32	Holmes	3,298.96	3,356.18	(57.22)	-1.70%
33	Duval	125,171.86	127,217.45	(2,045.59)	-1.61%
34	Citrus	15,352.11	15,511.59	(159.48)	-1.03%
	* Full-time Equivalent				

Increasing Enrollment. Conversely, as shown in Exhibit 5, two school districts have had enrollment growth, in excess of 10 percent and 1,000 full-time equivalent (FTE) students, over the five-year period. Although these school districts experienced an increase in FTE-based revenue for the increased enrollment, the revenue increases can lag behind school district expenditures when staffing new schools and paying initial start-up costs. Also, there is a greater risk that rapidly growing school districts may err when making FTE projections and overestimate FTE. Not only are these errors costly when FTE-based revenues are adjusted, but the school districts generally have made costly hiring and other expenditure decisions based on the estimated enrollment projections.

Exhibit 5
School Districts with Increasing Enrollment of More Than 10 Percent and 1,000 FTE Students Over Five Years

Number	School District	2010-11 Unweighted FTE*	2005-06 Unweighted FTE*	Increase	Percentage Increase
1	St. Johns	30,591.71	25,573.06	5,018.65	19.62%
2	Flagler	12,828.56	10,973.30	1,855.26	16.91%
	* Full-time Equivalent				

Number and Sizes of Schools. Considerable variation exists in the number and size of schools. Some school districts have a predominantly larger number of schools, and some have a predominantly smaller number of schools. Additionally, some have varying combinations of large, medium, and small school sizes. Logically, larger schools cost less per student than smaller schools because the salary, benefits, and fixed costs are spread over a larger number of students. We do not intend to suggest that smaller schools are inappropriate; rather, that the number and sizes of schools are relevant factors that impact financial condition among school districts.

Future Financial Trends Considerations

Economic Downturn. The weakness in Florida's economy for the last few fiscal years has, at times, resulted in State funding reductions from the original budgeted funding amounts via mid-year holdbacks for the school districts. For the 2010-11 fiscal year, the base Florida Education Finance Program (FEFP) allocation was initially estimated to be $3,623.76 per full-time equivalent (FTE) student, and the allocation was not revised. This amount represents a decrease of $6.86 from the final per FTE FEFP of $3,630.62 for the 2009-10 fiscal year. Based on the 2011-12 FEFP Fourth Calculation released by the FDOE in May 2012, the per FTE FEFP allocation for the 2011-12 fiscal year is expected to further decline by $144.54, from the 2010-11 fiscal year final allocation, to $3,479.22. For comparison purposes, this per FTE FEFP allocation amount of $3,479.22 is the lowest since the 2001-02 fiscal year final per FTE FEFP allocation amount of $3,298.48. FTE in school districts increased by 9,000 from the 2009-10 fiscal year to the 2010-11 fiscal year, and based on the 2011-12 FEFP Fourth Calculation, FTE increased further, by 20,000, in the 2011-12 fiscal year. This is a relatively significant increase compared to recent years, and as such, effective financial monitoring and timely and appropriate adjustments to operations are critical to school districts to ensure that the costs of operations 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. The long-term debt and other financing obligations reported as outstanding as of June 30, 2011, consisted primarily of: certificates of participation totaling $13.5 billion;

Qualified Zone Academy Bonds (QZABs), Qualified School Construction Bonds (QSCBs), and Build America Bonds (BABs) totaling $300 million, $910 million, and $99 million, respectively; and school district revenue, general obligation, and State Board of Education bonds totaling $1.1 billion, $232 million, and $568 million, respectively. In addition, school districts had $86 million in long-term debt notes. Generally, school districts extinguish their debt through various pledged resources such as capital outlay millage, discretionary sales surtax, pari-mutuel distributions, and other tax proceeds. As of June 30, 2011, pledged resources were sufficient to cover the required debt service by school districts. However, given the impact of the economic downturn on revenue sources, such as sales tax and property assessments, school districts will need to closely monitor the impact on required debt service payments.

American Recovery and Reinvestment Act and Other Federal Funding. The distribution of $5 billion dollars of ARRA funds to the school districts' K-12 programs began in the 2008-09 fiscal year, with the overall goals of improving schools and achievement and producing better results for students. ARRA had a significant financial impact for the 2009-10 and 2010-11 fiscal years on school districts with funding amounts for State stabilization, Federal Special Education, and Federal Title I programs estimated to be $2.7 billion, $647 million, and $491 million, respectively, as of June 2011. Further, numerous ARRA competitive grants were made available to school districts, such as the Race-to-the-Top Incentive grants, the Innovation Fund grants, and other grants awarded to school districts through Federal, State, and local agencies. During the calendar year 2010, Florida was awarded: $10 million under the Statewide Longitudinal Data Systems Grant Program; a Race-to-the-Top Incentive grant totaling $700 million; and $555 million from the Education Jobs Fund. With the exception of the Race-to-the-Top grant, most ARRA funding terminated in the 2010-11 fiscal year. Additionally, though the Education Jobs Fund grant is not ARRA funding, it is nonrecurring and terminated in the 2010-11 fiscal year.

ARRA mandates special accountability and transparency requirements regarding Federal economic stimulus funds. To support the most effective use of the funds and measure results, recipients are required to report quarterly expenditures tied to the assurances, principles, and strategies associated with ARRA Federal programs. Beginning in October 2009, school districts have had to meet this reporting requirement by the fifth day of each month following the end of the quarter. The necessary information to be reported includes, for example, project and activity descriptions, job creation and retention data, infrastructure information, subrecipient information, recipient area of benefit information, and population data. For the 2010-11 fiscal year, school districts incurred ARRA and other Federal economic stimulus expenditures totaling $1.9 billion.

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 of a school district's resources are accounted for in the governmental funds. Exhibit 6 shows that school districts reported revenues of $26.6 billion in the governmental funds during the 2010-11 fiscal year, an increase of over $382 million from the previous fiscal year.

Exhibit 6
Statewide Revenues – All Governmental Funds
Fiscal Years 2010-11 and 2009-10

Governmental Fund Type	2010-11 Amount	2010-11 Percent of Total	2009-10 Amount	2009-10 Percent of Total	Increase/ (Decrease)	Percent Increase/ (Decrease)
General Fund	$ 18,477,857,759	69.58%	$ 18,301,064,570	69.92%	$ 176,793,189	0.97%
Other Funds	8,077,318,944	30.42%	7,871,863,089	30.08%	205,455,855	2.61%
Total	**$ 26,555,176,703**	**100.00%**	**$ 26,172,927,659**	**100.00%**	**$ 382,249,044**	**1.46%**

Exhibit 7 shows total governmental fund type revenues reported by school districts for the 2010-11 and 2009-10 fiscal years by revenue source.

Exhibit 7
All Governmental Funds – Revenues by Source
Fiscal Years 2010-11 and 2009-10

Sources	2010-11 Amount	2010-11 Percent of Total	2009-10 Amount	2009-10 Percent of Total	Increase/ (Decrease)	Percent Increase/ (Decrease)
Federal	$ 4,819,689,609	18.15%	$ 4,200,287,764	16.05%	$ 619,401,845	14.75%
State	9,435,202,650	35.53%	8,596,009,195	32.84%	839,193,455	9.76%
Local	12,300,284,444	46.32%	13,376,630,700	51.11%	(1,076,346,256)	-8.05%
Total	**$ 26,555,176,703**	**100.00%**	**$ 26,172,927,659**	**100.00%**	**$ 382,249,044**	**1.46%**

The $382 million increase in total revenues during the 2010-11 fiscal year consisted of a net increase in Federal revenues of more than $619 million, an increase in State revenues of $839 million, and a decrease in local revenues of $1.1 billion. Total Federal and State revenues increased by 14.75 and 9.76 percent, respectively, while local revenues decreased by 8.05 percent. The significant increase in Federal revenues is due primarily to the receipt by the school districts of ARRA funding. The increase in State revenues consists of a net increase of $657 million in State FEFP revenues and an increase of $182 million in restricted State revenues. The decrease in local revenues is due primarily to a decrease in the local effort required by the State to be levied by local governmental entities, which decreased from $7.8 billion in the 2009-10 fiscal year to $7.2 billion in the 2010-11 fiscal year. The remainder of the decrease in local revenue is due primarily to a decrease in other types of millage levies, local sales tax revenue, and impact fee revenue.

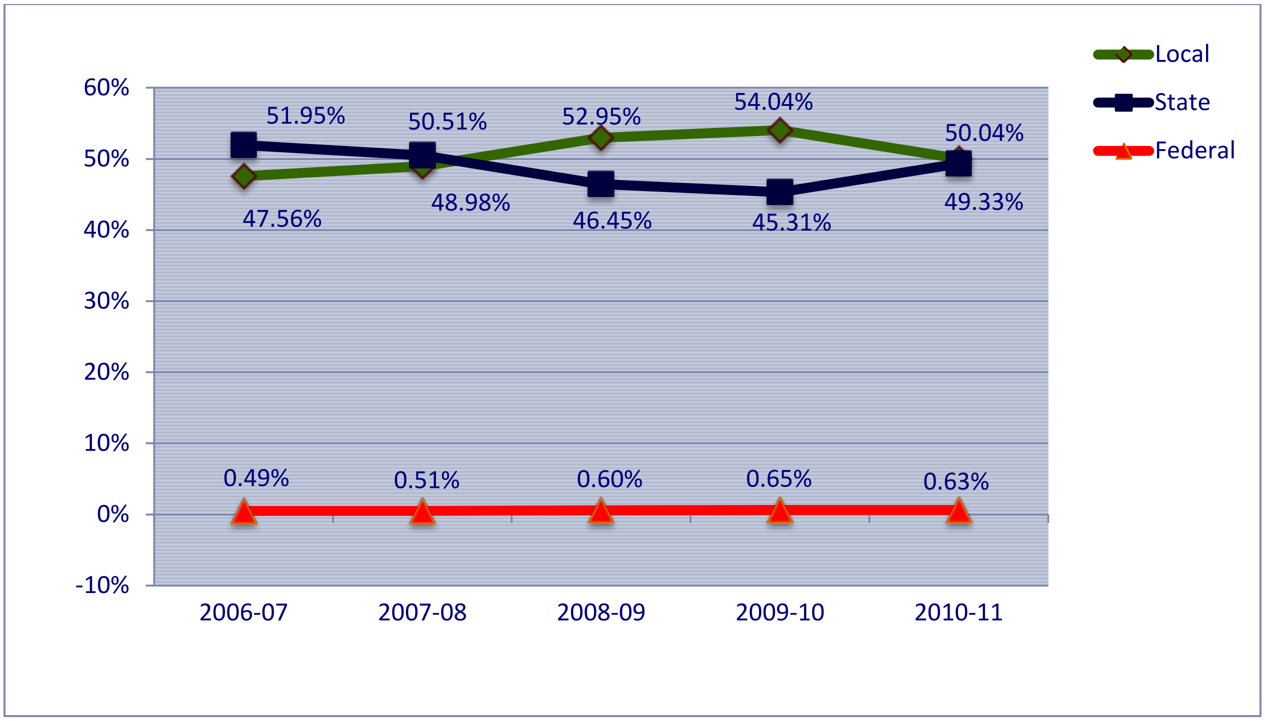
Exhibit 8 shows Federal, State, and local sources reported in the general fund (operating fund) of school districts for the 2010-11 and 2009-10 fiscal years.

Exhibit 8
General Fund Revenues by Source
Fiscal Years 2010-11 and 2009-10

General Fund	2010-11 Amount	2010-11 Percent of Total	2009-10 Amount	2009-10 Percent of Total	Increase/ (Decrease)	Percent Increase/ (Decrease)
Federal	$ 116,869,376	0.63%	$ 118,365,531	0.65%	$ (1,496,155)	-1.26%
State	9,115,454,054	49.33%	8,292,958,981	45.31%	822,495,073	9.92%
Local	9,245,534,330	50.04%	9,889,740,058	54.04%	(644,205,728)	-6.51%
Total	**$ 18,477,857,760**	**100.00%**	**$ 18,301,064,570**	**100.00%**	**$ 176,793,190**	**0.97%**

As shown on Exhibit 8, the State provided 49.33 percent of general fund resources during the 2010-11 fiscal year, while the local revenue sources provided 50.04 percent of total general fund resources. As discussed later in this section of the report, Federal funds are restricted and most of those funds are reported in the school districts' special revenue funds. The percentage of revenues from Federal, State, and local sources in the general fund over the last five fiscal years can be seen in Exhibit 9.

Exhibit 9
Percentage of General Fund Revenues from
Federal, State, and Local Sources Over Five Years



The majority of the State and local resources for school district operations are derived from 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 students in funded educational programs by various weights and cost factors determined by the Legislature to determine base funding from State and local FEFP funds. Each school district receiving State FEFP moneys must levy the required local effort millage in its local property taxes.

State and local FEFP revenue for school district operations totaled $12.92 billion for the 2010-11 fiscal year, comprised of $5.73 billion in State revenues and $7.19 billion in local revenues. In addition to the $5.73 billion in State revenues for operations as part of the FEFP, the school districts also received $3.71 billion in restricted State revenues. These restricted State revenues were for Class Size Reduction, Workforce Development, School Recognition, Public Education Capital Outlay, and other specific programs.

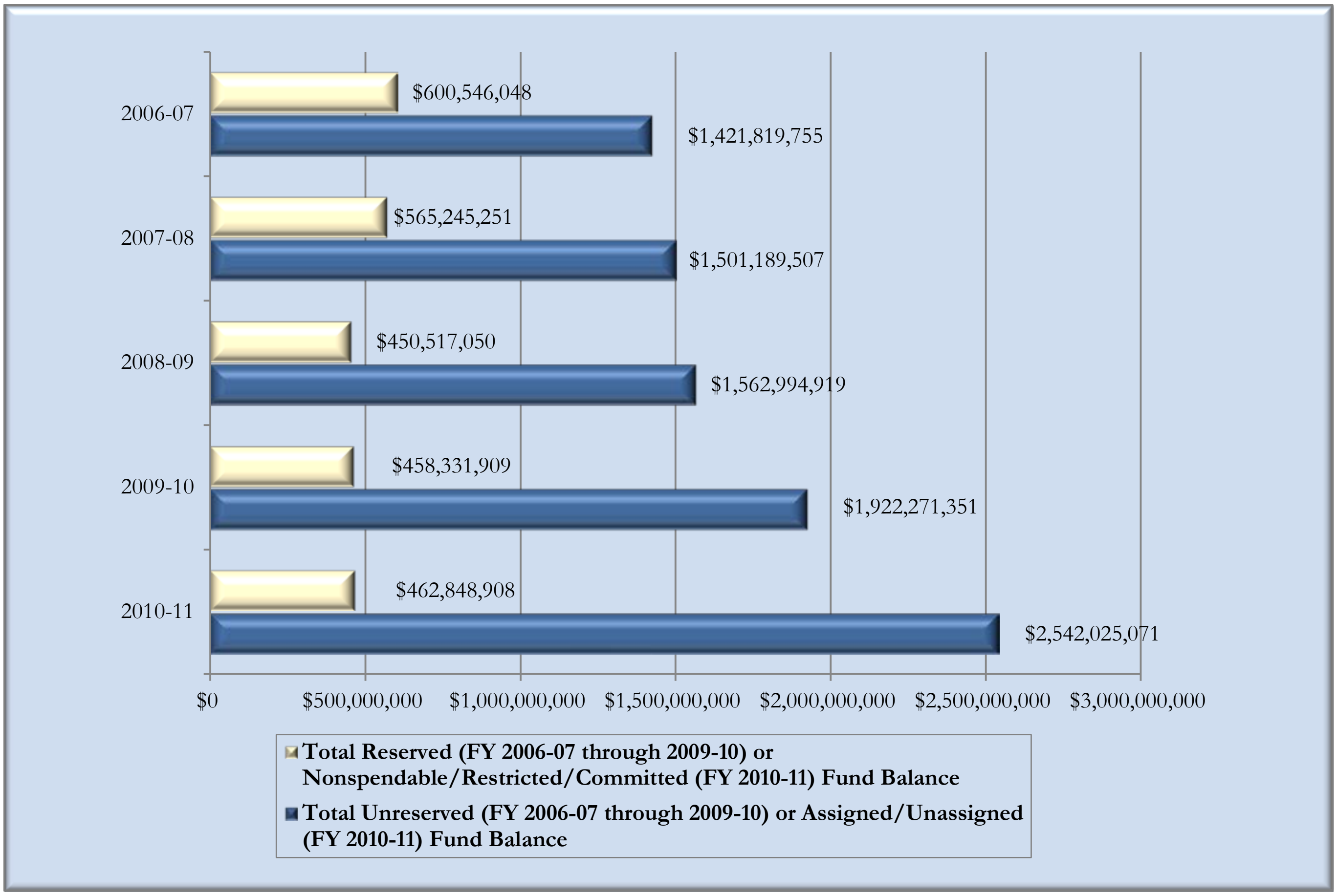
In addition to the $7.19 billion in local revenues for funding operations as part of the FEFP, the school districts reported $5.1 billion in other local revenues. These local revenues included, but were not limited to, $2.08 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; $1.05 billion from discretionary local effort millage levies for operations; $236 million from critical needs operation levies; $128 million from special voter levies; and $86 million from debt service millage levies for servicing bonded debt. Additional sources of local revenue included sales taxes, impact fees, charges for services, investment income, and other local sources. Twenty-two school districts reported local sales tax revenue totaling $465 million for the 2010-11 fiscal year as compared to 23 school districts that reported $503 million for the previous fiscal year. Thirty-six school districts reported impact fee revenue totaling $88 million for the 2010-11 fiscal year as compared to 31 school districts that reported $106 million for the previous fiscal year.

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

The issuance of long-term debt is a significant source of capital funding for school districts. Proceeds associated with the issuance of debt in the 2010-11 fiscal year totaled $633 million. Within the governmental funds, debt service and capital projects funds are used to account for resources restricted specifically for the payment of debt and for the acquisition of real property and the construction, renovation, remodeling, and maintenance of school district facilities. These resources are not available to finance the operating activities of a school district.

Fund Balance Trends. As shown below in Exhibit 10, the combined fund balances of the general funds (operating funds) of school districts Statewide increased from $2.02 billion for the 2006-07 fiscal year to $3 billion for the 2010-11 fiscal year.

Exhibit 10
Fund Balances of the General Fund[4]



Decreases of 10,000 and 18,600 in student enrollment Statewide were noted for the 2007-08 and 2008-09 fiscal years, respectively, and a decline of $52.9 million in total fund balance was noted for the 2008-09 fiscal year. During the five-year period, the percentage of unreserved or assigned/unassigned fund balance to total fund balance ranged from a low of 70.3 percent for the 2006-07 fiscal year to a high of 84.6 percent for the 2010-11 fiscal year.

Total fund balance increased from the 2009-10 fiscal year to the 2010-11 fiscal year as shown in Exhibit 10, due primarily to the shifting of certain instructional costs to the special revenue funds where these costs were paid from Federal funds such as ARRA and the Education Jobs Fund grant, as mentioned in the **Financial Condition Trends** section. However, as discussed in the **American Recovery and Reinvestment Act and Other Federal Funding** section, with the exception of the Race-to-the-Top grant, most ARRA funding terminated with the 2010-11 fiscal year. Additionally, there was an increase in Statewide student enrollment for the 2010-11 fiscal year as mentioned in the **Economic Downturn** section and despite a small decline in the per FTE FEFP allocation, State revenue increased overall. Continued weaknesses in the general economy, a further decline in the per FTE FEFP allocation

[4] For comparison purposes, assigned/unassigned fund balance classification pursuant to GASB Statement No. 54 is similar to unreserved fund balance used in the presentation of the fund balance of the general fund prior to the 2010-11 fiscal year. See Exhibits 11 and 12. Also, for comparison purposes, nonspendable/restricted/committed fund balance classification pursuant to GASB Statement No. 54 is similar to reserved fund balance used in the presentation of the fund balance of the general fund prior to the 2010-11 fiscal year.

for the 2011-12 fiscal year, and the termination of the Education Jobs Fund grant and ARRA funding are expected to result in a decline in total school district revenues that may negatively impact fund balances in the 2011-12 fiscal year.

Financial Condition Background

Financial Condition Measure. There are several measures that may be used to evaluate the financial condition of governments. One widely used financial condition measure that is relevant to school districts is a measure that compares the level of available equity in the operating fund to overall operating resources for that fund for a fiscal year. This measure shows the net accumulated resources at a point in time that is available for appropriation to meet the costs of unexpected and nonrecurring events. We used this measure in analyzing school district financial condition (see Exhibits 11 and 12).

Exhibit 11
Financial Condition Measure, pre-GASB 54

$$\frac{\text{General Fund Unreserved Fund Balance}^{5}}{\text{General Fund Revenues}^{6}} = \text{Financial Condition Ratio (\%)}$$

Exhibit 12
Financial Condition Measure, post-GASB 54

$$\frac{\text{General Fund Assigned and Unassigned Fund Balance}^{5}}{\text{General Fund Revenues}^{6}} = \text{Financial Condition Ratio (\%)}$$

Credit rating agencies generally look more favorably on financial condition ratios of at least 5 percent. Other literature suggests percentages ranging from 5 to 10 percent. However, often the guidance is not clear as to whether the percentage is derived from total fund balance or assigned and unassigned fund balance (previously reported as unreserved fund balance). We also considered revenue stream characteristics and expenditure practices for school districts. In view of the revenue and expenditure stream characteristics in school districts, the established financial management practices followed by school districts, and the oversight by FDOE, a lower assigned and unassigned fund balance threshold may be reasonable without unacceptable risks.

Section 1011.051, Florida Statutes, requires school district superintendents to notify the Commissioner of Education and respective school board if the general fund's ending fund balance not classified as nonspendable, restricted, or committed (i.e., assigned and unassigned fund balance) in the school district's approved operating budget is projected to fall below 3 percent of projected general fund revenues during the current fiscal year. For consistency with this statutory requirement, we used a financial condition ratio of 3 percent for purposes of this report.

Characteristics of General Fund Equity. GASB issued Statement No. 54 to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed

[5] For a discussion of fund balance classifications, see Footnote 4 in the **Fund Balance Trends** section and the **Characteristics of General Fund Equity** section.
[6] For a discussion of revenues, see the **Funding Trends** section.

upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. Additional classifications are restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. The fund balance shows the accumulated net resources at a point in time. It is the difference between the assets and the liabilities of the fund. School districts were required to implement GASB Statement No. 54 by the fiscal year ending June 30, 2011, and report their governmental fund balances in the following categories.

- *Nonspendable* represents the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale.
- *Restricted* represents the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. Districts classify most of their fund balances other than general fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the general fund, that are legally or otherwise restricted.
- *Committed* represents the portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the school board). These amounts cannot be used for any other purpose unless the school board removes or changes the specified use by taking the same action it employed to previously commit the amounts.
- *Assigned* represents the portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the general fund, not classified as nonspendable, restricted, or committed.
- *Unassigned* represents the portion of fund balance that is residual classification for the general fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

AUDIT FINDINGS

Classification of Audit Findings

Auditing standards require that auditors report significant control deficiencies and material weaknesses in internal control 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 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 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. 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 audit reports for 6 school districts included no findings, while 61 audit reports included a total of 513 findings addressing weaknesses in internal control, instances of noncompliance with applicable laws or rules, or additional matters. For purposes of this report, audit findings are generally classified in one of three categories. The first category consists of material weaknesses, as defined above, 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. The second category consists of significant deficiencies as defined above, instances of noncompliance with applicable laws or rules, or additional matters that should be addressed by management. The third category includes instances of internal control deficiencies related to Federal awards or noncompliance with Federal awards requirements.

In the audit reports issued by our office, all audit findings are included within the body of the audit report. In the audit reports issued by the other independent CPAs, material weaknesses and significant deficiencies are included within the body of the report and additional matters are generally included in a separate management letter within the audit report.

Material Weaknesses and Material Noncompliance

While the audit reports for five school districts (Highlands, Jefferson, Monroe, Okeechobee, Putnam) included findings that were considered to be material weaknesses, no audit reports cited instances of material noncompliance. This represents a decrease from the nine audit reports in the previous fiscal year that included material weaknesses, none of which had instances of material noncompliance. Pursuant to Section 1003.621(1)(a)3., Florida Statutes, a school district cited with a material weakness or 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 in statute and rules of the State Board of Education.

For these five school districts (Highlands, Jefferson, Monroe, Okeechobee, Putnam), the material weakness findings addressed procedural enhancements needed to ensure the accuracy and completeness of the financial statements. Additionally, one of these school districts (Okeechobee) also needed enhancements in accountability for school internal fund collections.

Significant Deficiencies and Additional Matters

The audit reports for six school districts contained no audit findings, and reports for the remaining 61 school districts included findings that addressed control deficiencies or instances of noncompliance with applicable laws or rules. The following is a summary of those findings.

Financial Condition. Two school districts had findings addressing the school districts' financial condition. For one of these school districts, at June 30, 2011, the general fund assigned and unassigned fund balance was 5.6 percent of general fund revenues. However, in December 2011, school district personnel presented the school board with an analysis of the 2011-12 fiscal year general fund budgeted revenues, expenditures, and ending fund balance, which indicated that the financial condition ratio as of December 1, 2011, was 2.71 percent of projected general fund revenues. Consequently, in accordance with Section 1011.051, Florida Statutes, the Superintendent notified FDOE of the 2.71 percent financial condition ratio. Additionally, the financial condition could be further reduced by payments of questioned costs and additional school board premium contributions for the school district's health and workers' compensation self-insurance programs, as noted elsewhere in the audit report and in previous audit reports.

The second school district reported a decline of $4.15 million in its general fund assigned and unassigned fund balance for the fiscal year; the ending general fund assigned and unassigned fund balance of $4.97 million at

June 30, 2011, represented 1.21 percent of general fund revenues. This school district also notified FDOE of its financial condition in accordance with statutory requirements. Under these circumstances, these school districts have less resources available for emergencies and unforeseen situations than other school districts and were at a higher risk of experiencing financial difficulty.

Information Technology. For 53 school districts, various control deficiencies in information technology (IT) were noted, as discussed below:

- **Security Incident Response Plans**. Thirty-six school districts lacked or needed enhancements in written security incident response plans. Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to computer security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification of the affected parties.
- **Access Controls**. Twenty-seven school districts had various deficiencies in IT access controls. For example, at certain school districts, inappropriate or unnecessary access privileges existed, data was not classified according to sensitivity or level of significance, or documentation of user access authorization was not maintained. School district management was notified of the specific details of the access control deficiencies, although the details were not always included in the audit reports to avoid the possibility of compromising school district data and IT resources.
- **Data Loss Prevention**. Twenty-three school districts 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 of confidential or sensitive data, and monitor the use and transmission of confidential or sensitive data.
- **Written Policies**. Fifteen school districts lacked written IT policies and procedures for certain IT functions.
- **Risk Assessment**. Twelve school districts 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.
- **Disaster Plans**. Twelve school districts needed improvements in disaster preparedness and recovery plans or the plans needed to be tested.
- **Program Change Methodology**. Eleven school districts needed enhancements in information systems program change methodology.
- **Security Awareness**. Ten school districts needed security awareness training programs or improvements in already existing security awareness training programs.
- **Lack of Timely Termination of Access**. Seven school districts lacked timely termination of former employee IT access privileges.
- **Logging/Monitoring**. Five school districts had inadequate logging or monitoring of data and IT resources.
- **Physical Security Controls**. Five school districts needed to improve physical controls over IT infrastructure. Physical controls, such as fire suppression systems, prevent or mitigate potential loss or impairment to IT resources and data center service.

Record Keeping/Records Management. In addition to the material weaknesses noted for Highlands, Jefferson, Monroe, Okeechobee, and Putnam County School Districts discussed previously, the audit reports for 24 school districts included findings addressing the need for improvements in certain record keeping and financial records management procedures. At 15 school districts, procedures needed improvement to ensure the accuracy and completeness of the financial statements. While many of these findings related to required audit adjustments for the accuracy of the financial statements, other instances included needed improvements in the preparation and accuracy of the Schedule of Expenditures of Federal Awards, inadequate disclosure in the notes to financial statements, and needed improvements in procedures for identifying major governmental funds in the financial statements.

For four school districts, deficiencies were noted in accountability over goods, supplies, and fuel inventories. Audit reports of three school districts included the need for enhancements in the presentation and timeliness of monthly financial reports to the school board and, for three school districts, controls over journal entries needed improvement. Three school districts assigned unrestricted capital resources ranging from $211,000 to $10.6 million in capital projects funds, without officially designating the employee that had the authority to express the intended use of these funds; school district records also did not evidence the specific intended use of these funds. Other findings and recommendations addressed the lack of an actuarial valuation to support a reported liability, improvements needed in fiscal year-end cut-off procedures for liabilities, and improvements needed in budget process monitoring and school board minute procedures.

Cash and Investment Controls. In addition to the material weakness noted for Okeechobee County School District discussed previously, findings addressed control deficiencies over cash or investments at 31 school districts. At twenty-six school districts, improvements were needed in controls over electronic funds transfers (EFTs). Deficiencies noted included the lack of school board-approved policies and procedures prescribing EFT accounting and controls, contrary to State Board of Education Rule 6A-1.0012, Florida Administrative Code (FAC); EFT agreements with banks that omitted critical information, such as the official title of bank accounts and signatures of superintendents or board chairs; and EFT agreements that authorized former employees to make EFTs.

Audit reports also noted that improvements in controls were needed over central cashier and decentralized collections, such as school a la carte food sales and other food service collections, school child care program fees, and adult education fee collections at six school districts. Improvements in bank reconciliation procedures for eight school districts were needed, and three school districts needed to improve controls over investments.

Capital Assets Management. For six school districts, findings and recommendations addressed deficiencies in the accountability for long-lived assets, including land, motor vehicles, and tangible personal property. The audit reports for five of the school districts noted deficiencies in classifying capital assets and associated expenditures for reporting purposes, as well as accounting for the write-off of renovated facilities. Also, for one school district, deficiencies were noted in tangible personal property accountability procedures, such as inadequately updating property records for acquisitions and disposals. In addition, the lack of adequate detailed subsidiary records for capital assets was noted for two school districts.

Expenditures/Purchasing. For seven school districts, findings addressed the need to improve controls over purchasing practices and operating expenditures. For four of these school districts, improvements were needed in controls over contractual services. For example, at one school district, records did not evidence that the school board awarded a contract for energy education training consistent with competitive selection requirements of State Board of Education Rule 6A-1.012, FAC; at another, procedures did not provide for independent monitoring and verification of the reasonableness of cost avoidance guarantees contained in the energy savings contract. For three school districts, improvements were needed in controls over purchasing cards, and at one school district, auditors noted that controls over travel expenditures needed enhancement. At one school district, auditors noted that records did not evidence the authorized public purpose served by incurring legal fees totaling $60,000 for a lawsuit by a school district employee against an individual.

Payroll and Personnel. For 49 school districts, findings addressed the need to improve controls over payroll and personnel, as summarized below:

- **Compensation**. For 44 school districts, school boards had not adopted formal policies and procedures to ensure that the differentiated pay process of certain school district employees had been properly documented using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). The school boards for 41 of these 44 school districts also did not ensure that salary schedules based a portion of each instructional employee's compensation on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes (2010).
- **Performance Assessments**. For 36 school districts, records did not evidence that the performance assessments of certain school district employees were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).
- **Payroll Processing**. For 15 school districts, it was noted that controls over payroll processing could be enhanced. At 13 of these school districts, auditors noted that procedural enhancements could be made to sufficiently and appropriately evidence employee work time supporting salary and benefits costs. For example, one school district made compensation payments to therapists and pathologists that were not consistent with the school board-approved salary schedule, resulting in net overpayments totaling $159,355. At another of these 13 school districts, records did not evidence the basis upon which salary adjustments and one-time bonuses were determined for 114 administrative support personnel, ranging in amounts from $1,500 to $5,000. Procedural enhancements were needed at one school district to ensure that payroll amounts reported to the Internal Revenue Service (IRS) are reconciled to the school district's accounting records on a quarterly basis. One school district made untimely Federal withholding and social security tax payments, resulting in an $8,036.87 penalty assessed by the IRS.
- **Personnel Administration.** For four school districts, it was noted that procedures for performing fingerprinting and background screenings, or rescreenings, for employees and contracted vendors with direct student contact were not adequate.
- **Other**. At one school district, the auditors noted that the school board policy on terminal sick leave payments to employees other than instructional staff or educational support employees was not consistent with State law.

Self-Insurance Programs. For four school districts, findings addressed the need to improve controls over the administration of self-insurance plans. At one school district, the net assets of the school district's group health self-insurance plan had declined by $11.6 million over the last three fiscal years. At June 30, 2011, the net assets available to pay claims was $4.3 million, representing 1.4 months of average claims experience, and was below the school district's target net asset balance of 3 months. At another school district, auditors reported that the health self-insurance internal service fund reported a net accumulated deficit of $6.19 million, as of June 30, 2011. Another school district had not established a formal plan to fund its property self-insurance program for wind damage, and two school districts had not developed formal policies and procedures to monitor the financial condition of the self-insurance plans and ensure that favorable net asset balances were maintained.

Capital Construction and Related Expenditures. Findings addressed the need to improve controls over capital outlay expenditures for 21 school districts, as summarized below:

- **Construction Planning**. For 10 school districts, procedural enhancements were needed related to construction planning, alternative construction methods and maintenance techniques, and accountability for facilities and maintenance departments' accountability. These school districts needed to establish long-range facilities planning committees comprised of various stakeholders to periodically meet and assist school district facilities personnel in identifying long-range construction needs; develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and techniques for performing significant maintenance-related jobs; or develop additional goals and objectives for the facilities planning and maintenance departments to identify efficiency or cost effectiveness outcomes for department personnel.

- **Construction Monitoring**. For eight school districts, improvements were needed in controls over construction management, guaranteed maximum price, and subcontractor contracts.
- **Acquiring Professional Services.** Three school districts did not comply with Section 287.055, Florida Statutes, when procuring construction management services.
- **Restricted Capital Outlay Resources**. It was noted that:
  - For nine school districts, restricted capital outlay moneys in amounts ranging from $2,493 to $7.6 million were used for purposes not consistent with applicable statutory requirements including: premiums for certain types of insurance, repayment of a bank loan, instructional computer software, athletic uniforms and equipment, noncapital music items, and copier supplies. Additionally, one of these school districts accumulated $878,403 of ad valorem tax levy proceeds in the general fund instead of appropriately accounting for these proceeds by fiscal year tax levy in the appropriate capital projects fund.
  - One school district did not adequately advertise the intended use of $1,854,951 of ad valorem tax levy proceeds.
  - One school district needed to continue its efforts with FDOE to resolve the 2007-08 fiscal year appropriated Public Education Capital Outlay questioned costs of $341,000, which were noted in the previous fiscal year's audit report as subject to reversion pursuant to Section 216.301(2), Florida Statutes.

Adult General Education Courses. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, provides that each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE instructional hours reporting procedures. The audit reports for 23 school districts included findings that the school districts could enhance controls over enrollment reporting. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly and be accurately presented in FDOE's records.

Miscellaneous Findings. In addition to those findings described above, audit findings addressing various other matters, although not predominant, were included in the individual school district audit reports. These matters included, for example, the need for improved controls over social security numbers to ensure compliance with Section 119.071(5)(a), Florida Statutes; noncompliance with educational facility safety standards; improvements needed in charter school monitoring; the lack of employee cross training; the use of workforce development funds for unallowable transfers, unresolved from previous audit reports; the lack of controls over wireless devices; and deficiencies in internal controls over high school student diplomas.

Federal Awards Findings

For 30 school districts, findings addressed control deficiencies over Federal awards and Federal noncompliance. Material noncompliance and material internal control weaknesses related to Federal programs were noted at seven school districts (Bay, Columbia, Indian River, Jefferson, Manatee, Pinellas, Putnam) and material noncompliance related to Federal programs was noted at one school district (Escambia). These material Federal findings addressed noncompliance with the Federal compliance requirements of Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; Period of Availability; Subrecipient Monitoring; and Special Tests and Provisions; and related to major programs including Title I; Exceptional Student Education; Race-To-the-Top; Educational Technology State Grants Cluster; Charter Schools; and the Student Financial Assistance Cluster. Other Federal findings that were not considered material noncompliance addressed various Federal compliance requirements for programs such as the National School Lunch and Breakfast Programs; Title I; Exceptional Student Education; Education Jobs Fund; ARRA - School Improvement Grants; the ARRA – State Fiscal Stabilization Fund Cluster; and the Federal Pell Grant Program. As previously discussed in the **Future Financial Trends Considerations** section of this report, ARRA mandates special accountability and transparency requirements regarding Federal economic stimulus funds, which requires additional record keeping for school districts and expanded audit procedures for auditors.

Repeated Prior Fiscal Year Findings

A significant number of findings included in audit reports for the 2010-11 fiscal year were also included in previous audit reports. Of the 513 findings included in the audit reports reviewed, 93 (18 percent) were repeated from two preceding audit reports. The percentage of repeated findings indicates that some school districts did not take action to timely correct prior year deficiencies or noncompliance.

Pursuant to Section 218.39, Florida Statutes, beginning with audits reports for the 2010-11 fiscal year, we must notify the Legislative Auditing Committee of entities that failed to take full corrective action in response to one or more recommendations included in the two preceding financial audit reports. On September 10, 2012, we notified the Legislative Auditing Committee of 33 district school boards that failed to take full corrective action in response to one or more recommendations included in two preceding audit reports.

OTHER MATTERS OF INTEREST

School District Budget Transparency

Section 1011.035, Florida Statutes, effective July 1, 2011, requires school boards to post on their Web sites a plain language version of each proposed, tentative, and official budget describing each budget item in easily understandable terms. The statute 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 will enable taxpayers, parents, and education advocates to obtain school district budget and related information in a manner that is simply explained and easily understandable. Budgetary transparency leads to more responsible spending, more citizen involvement, and improved accountability.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

The scope of this project included a review of the audit reports for the 47 school districts audited by our office and the 20 school districts audited by other independent CPAs for the fiscal year ended June 30, 2011.

Our audit methodology included a review of applicable audit reports and a compilation of significant financial trends and findings. We conducted this review in accordance with applicable generally accepted government auditing standards. We believe that the procedures performed provide a reasonable basis for the summaries of significant financial trends and findings 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 financial trends and significant findings identified in district school board audit reports for the fiscal year ended June 30, 2011.

David W. Martin, CPA
Auditor General

THIS PAGE INTENTIONALLY LEFT BLANK.