STATE OF FLORIDA AUDITOR GENERAL

Report No. 2016-023
October 2015

REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2013-14 FISCAL YEAR AUDITS OF DISTRICT SCHOOL BOARDS

Sherrill F. Norman, CPA
Auditor General

This project was coordinated by Stellar Lee, CPA.

Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Supervisor, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2013-14 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 2013-14 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 our Office no later than March 31, 2015.

Significant Financial Trends

- At June 30, 2014, school districts Statewide had an average level of general fund total assigned and unassigned fund balance that was 9.69 percent of general fund revenues (financial condition ratio), which is approximately 1 percentage point less than the average financial condition ratio for the previous fiscal year. Of the 67 school districts, 5 had ratios that were below 3 percent at June 30, 2014. In these circumstances, these 5 school districts had significantly fewer resources available for emergencies and unforeseen situations than the other school districts.

Significant Findings

- The audit reports for 62 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 3 school districts included findings considered to be material weaknesses, which represents a decrease compared to the audit reports for 4 school districts that included material weaknesses for the previous fiscal year.

BACKGROUND

State law[1,2] provides 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 for each major Federal program in accordance with United States Office of Management and Budget Circular A-133.

State law[3] also requires that we annually compile a summary of significant findings and financial trends identified in school district audit reports.

FINANCIAL TRENDS

The provisions of State law, as well as various inquiries, evidence that critical interest in understanding and addressing factors that affect the financial condition of school districts exists. The financial condition of school districts can be assessed by a review of the general fund balances and activities, which account

[1] Each State law referenced in this report is to the 2014 Florida Statutes.

[2] Sections 11.45 and 218.39, Florida Statutes.

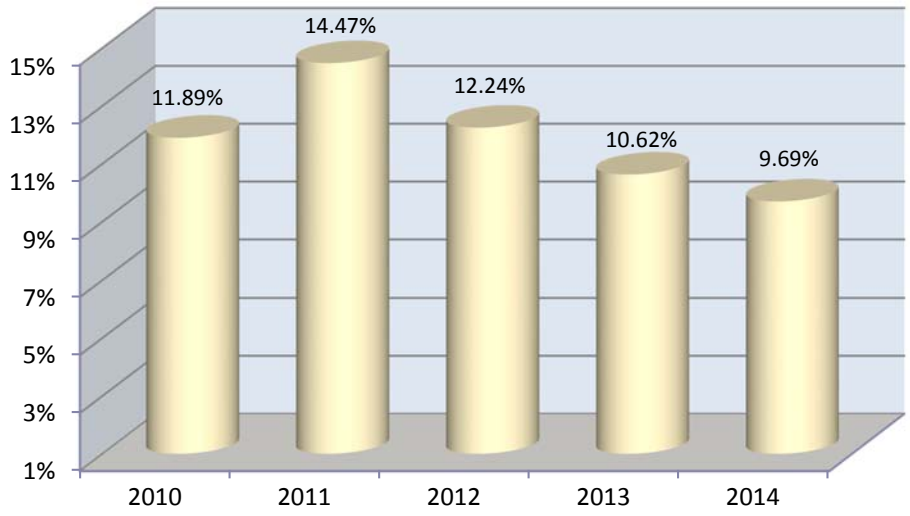
[3] Section 11.45(7)(f), Florida Statutes.

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 measuring financial condition.

Financial Condition Trends

The financial condition measure used in this report is the financial condition ratio[4] of the general fund total assigned and unassigned fund balance, or unreserved fund balance, to the general fund total revenues. Chart 1 shows the average financial condition ratios for the fiscal years ended June 30, 2010, through June 30, 2014. As shown in Chart 1, the average financial condition ratio was 9.69 percent at June 30, 2014, which is approximately 1 percentage point less than the average financial condition ratio for the previous fiscal year. The financial condition ratios were relatively high for the fiscal years ended June 30, 2010 through June 30, 2012 primarily due to the school districts' receipt and use of American Recovery and Reinvestment Act (ARRA) and other Federal economic stimulus funds. 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 of this report, with the exception of the Race-to-the-Top and School Improvement grants, most ARRA funding terminated during the 2010-11 fiscal year.

Chart 1
Average Financial Condition Ratios of School Districts
For the Fiscal Years Ended June 30, 2010, Through June 30, 2014



State law[5] 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 district's approved operating budget is projected to fall below 3 percent during the current fiscal year, school district superintendents must notify the Commissioner of Education and respective school board.

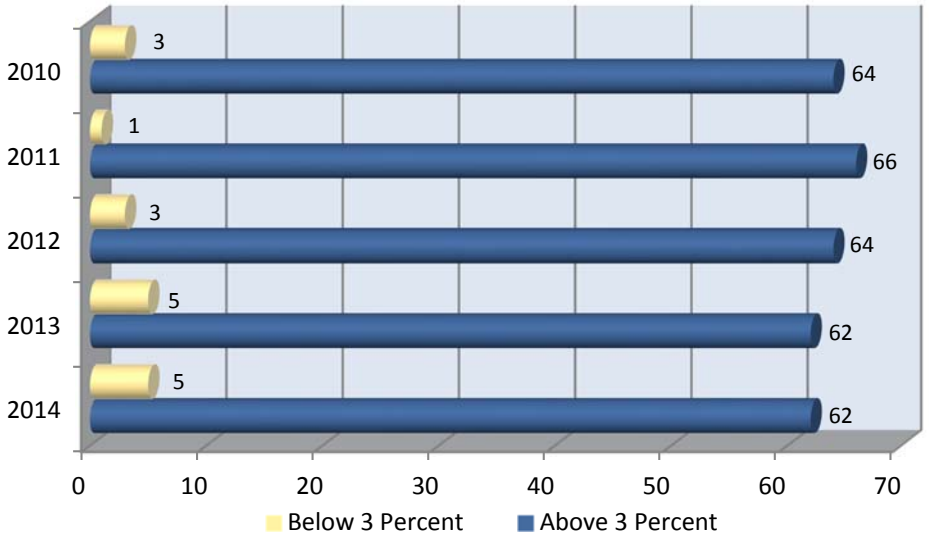
[4] Effective for the 2010-11 fiscal year, Governmental Accounting Standards Board (GASB) Statement No. 54 established the assigned/unassigned fund balance classifications that are similar to the unreserved fund balance classification required for prior fiscal year reporting. For comparison purposes, financial condition ratios are calculated using the applicable assigned/unassigned or unreserved fund balances.

[5] Section 1011.051, Florida Statutes.

Chart 2 shows the number of school districts with ratios below and above 3 percent for the fiscal years ended June 30, 2010, through June 30, 2014.

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

For the Fiscal Years Ended June 30, 2010, Through June 30, 2014



As indicated in Chart 2, the number of school districts with financial condition ratios below 3 percent at fiscal year-end has fluctuated from one to five school districts over the past 5 fiscal years. These school districts have significantly fewer resources available for emergencies and unforeseen situations than other school districts.

Table 1 identifies school districts with financial condition ratios below 3 percent at June 30, 2014, and the number of consecutive years that the districts' ratios were below 3 percent at fiscal year-end.

Table 1
School Districts with Financial Condition Ratios Below 3 Percent

School District	Financial Condition Ratios Fiscal Year Ended June 30, 2014	Number of Consecutive Years Ratio Below 3 Percent
Clay	2.24%	2
Gadsden	2.84%	1
Liberty	2.92%	1
Miami-Dade	1.86%	1
Walton	2.82%	1

For the 2009-10 through 2013-14 fiscal years, the financial condition ratios of several other school districts were below the above-noted threshold at certain year-ends, but not at June 30, 2014. Historically, school districts that experience weak financial conditions implement measures that generally restore the financial conditions to favorable positions within 1 or 2 fiscal years.

If at any time a school district's financial condition ratio, determined from the school district's approved operating budget, is projected to fall below 2 percent, State law[6] requires the school board to have a reasonable plan to avoid a financial emergency or the FDOE will appoint a financial emergency board to implement measures to assist the school board in resolving the financial emergency. Pursuant to State law,[7] a school district is considered to be in a state of financial emergency if the FDOE determines that the school board needs State assistance to resolve or prevent a financial emergency condition. As noted in Table 1, one school district (Miami-Dade) had a financial condition ratio below 2 percent at June 30, 2014.

Factors Impacting Financial Condition

As previously discussed, the financial condition ratios for the fiscal years ended June 30, 2010, through June 30 2012, were significantly impacted by the receipt and use of ARRA and other Federal economic stimulus funding, most of which terminated during the 2010-11 fiscal year. Further analyses of school district financial trend data identified other factors that impact the financial condition of school districts and may increase the risk of a weak financial condition. While no single factor is identified as a guaranteed predictor of financial condition, factors such as property values, increasing or declining enrollment, and the size of schools require effective financial management to limit the impact on the school districts' financial condition.

Property Values. Property taxes, which are assessed on property values, are the primary source of local revenues for school districts. According to the Florida Department of Revenue, Statewide property values increased from $1.43 trillion in the 2010 calendar year to $1.52 trillion in the 2014 calendar year, or an increase of 6.3 percent. Due in part to this increase, Statewide property tax levies for school district operations increased from $10.64 billion for the 2010-11 fiscal year to $11.3 billion for the 2013-14 fiscal year, or an increase of 6.2 percent.

Increasing Enrollment. Statewide enrollment increased from 2,604,648 for the 2009-10 fiscal year to 2,670,479 for the 2013-14 fiscal year, or an increase of 2.5 percent. A total of 32 school districts experienced enrollment growth during this period, including 14 school districts that had enrollment growth of 1,000 or more unweighted full-time equivalent (FTE) students, as shown in Table 2. Although these 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. Not only are these overestimates costly when FTE-based revenues are adjusted (reduced), but school districts may have made costly hiring and other expenditure decisions based on the estimated enrollment projections.

[6] Section 1011.051(2), Florida Statutes.

[7] Section 218.503(3), Florida Statutes.

Table 2
School Districts with Enrollment Growth
From the 2009-10 to 2013-14 Fiscal Years

		Unweighted FTE		
Number	**School District**	**2009-10**	**2013-14**	**Increase**
1	Orange	171,820	185,594	13,774
2	Hillsborough	191,182	200,719	9,537
3	Palm Beach	171,659	180,172	8,513
4	Miami-Dade	343,953	350,796	6,843
5	Lee	79,509	86,159	6,650
6	Osceola	51,459	57,239	5,780
7	Broward	255,174	260,741	5,567
8	St. Johns	29,646	33,272	3,626
9	Duval	124,050	127,630	3,580
10	Manatee	42,349	45,890	3,541
11	Polk	93,180	96,144	2,963
12	Collier	42,245	43,818	1,573
13	Okaloosa	28,703	29,876	1,173
14	Bay	25,153	26,262	1,109

Declining Enrollment. While enrollment increased in total for all school districts from the 2009-10 fiscal year to the 2013-14 fiscal year, 35 school districts experienced enrollment declines during this period, including 4 school districts with declines of 1,000 or more unweighted FTE students, as shown in Table 3.

Table 3
School Districts with Declining Enrollment
From the 2009-10 to 2013-14 Fiscal Years

		Unweighted FTE		
Number	**School District**	**2009-10**	**2013-14**	**Decrease**
1	Pinellas	104,306	102,251	(2,055)
2	Brevard	71,592	70,071	(1,521)
3	Volusia	62,061	60,935	(1,126)
4	Citrus	15,768	14,675	(1,093)

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 remains constant because often no one grade or class within an individual school may be affected enough to justify a reduction of staff.

Size of Schools. The size of schools varies significantly between school districts. Most school districts have varying combinations of large, medium, and small schools. Logically, larger schools cost less per student than smaller schools because the salary, benefits, and fixed costs are spread over a larger number of students. Accordingly, the size of schools is a relevant factor that impacts school district financial condition.

Future Financial Trends Considerations

State Funding. For the 2013-14 fiscal year, the base Florida Education Finance Program (FEFP) allocation was $3,752 per weighted FTE student, which represents an increase of $169 from the base FEFP allocation of $3,583 per weighted FTE student for the 2012-13 fiscal year. Also, based on the 2014-15 fiscal year FEFP fourth calculation released by the FDOE in April 2015, the base FEFP allocation for the 2014-15 fiscal year increased by $280 per weighted FTE student from the 2013-14 fiscal year final allocation to $4,032. The weighted FTE in school districts increased by approximately 20,405 from the 2012-13 fiscal year to the 2013-14 fiscal year and, based on the 2014-15 FEFP fourth calculation, the weighted FTE increased further by approximately 34,141 in the 2014-15 fiscal year. While these are relatively significant increases compared to previous fiscal years, effective financial monitoring and timely and appropriate adjustments to school district 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 (COPs). The long-term debt and other financing obligations reported as outstanding as of June 30, 2014, consisted primarily of: COPs totaling $12 billion; Qualified School Construction Bonds (QSCBs), Qualified Zone Academy Bonds (QZABs), and Build America Bonds (BABs) totaling $936 million, $222 million, and $98 million, respectively; and school district revenue, general obligation, and State Board of Education bonds totaling $812 million, $370 million, and $358 million, respectively. Additionally, school districts had $117 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, 2014, pledged resources were generally sufficient to cover the required debt service by school districts.

Eight school districts that had variable interest rate COPs at June 30, 2014, had entered into a total of 20 interest rate swap agreements to reduce overall borrowing costs. The objective of an interest rate swap agreement, a type of hedging derivative, is to achieve lower borrowing costs by synthetically fixing interest rates on the debt as compared to issuing regular fixed-rate debt. Debt service payments fluctuate, depending on changes in the underlying interest rates linked to the interest rate swap agreements, and accounting standards require that hedging derivatives be disclosed at fair value as of the financial reporting date.

The fair value of an interest rate swap agreement is the estimated amount the school district would have received or paid if the swap agreement was terminated. As of June 30, 2014, total fair values of the interest rate swap agreements for each of the eight school districts ranged from $376,000 to negative $67 million. However, the majority of interest rate swap agreements are associated with COPs with

remaining terms that exceeded 20 years, and the actual benefit or additional costs of the swap agreements generally will not be known until the COPs have been paid off. Depending on the fair value of the swap agreements upon termination, there is a risk that the debt service costs of these school districts may exceed the costs that could have been experienced from regular fixed-rate debt. As of June 30, 2014, each of these school districts had sufficient available resources to meet their respective debt service requirements.

American Recovery and Reinvestment Act and Other Federal Funding. 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 of $2.7 billion, $647 million, and $491 million, respectively. In addition, ARRA competitive grants have been made available to school districts, the largest being Race-to-the-Top Incentive grants. With the exception of the Race-to-the-Top Incentive and School Improvement grants, ARRA funding generally terminated during the 2010-11 fiscal year. For the 2013-14 fiscal year, school districts incurred ARRA expenditures totaling $149 million, a significant decrease compared to the $1.9 billion expended for the 2010-11 fiscal year.

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. As shown in the Table 4, school districts reported revenues of $26 billion in the governmental funds for the 2013-14 fiscal year, an increase of $1.47 billion, or 5.97 percent, from the previous fiscal year.

Table 4
Statewide Revenues – All Governmental Funds
For the 2012-13 and 2013-14 Fiscal Years

	2012-13		2013-14		Increase	
Governmental Fund Type	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	$18,383,370,949	74.91%	$19,573,998,232	75.27%	$1,190,627,283	6.48%
Other Funds	6,155,977,370	25.09%	6,430,607,985	24.73%	274,630,615	4.46%
Totals	**$24,539,348,319**	**100.00%**	**$26,004,606,217**	**100.00%**	**$1,465,257,898**	**5.97%**

Table 5 shows, by source, the total governmental fund type revenues reported by school districts for the 2013-14 and 2012-13 fiscal years.

Table 5
Statewide Revenues by Source – All Governmental Funds
For the 2012-13 and 2013-14 Fiscal Years

	2012-13		2013-14		Increase	
Source	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent**
Federal	$ 3,116,588,736	12,70%	$ 3,217,606,545	12.37%	$ 101,017,809	3.24%
State	9,838,227,146	40,09%	10,857,871,767	41.75%	1,019,644,621	10.36%
Local	11,584,532,437	47.21%	11,929,127,905	45.88%	344,595,468	2.97%
Totals	**$24,539,348,319**	**100.00%**	**$26,004,606,217**	**100.00%**	**$1,465,257,898**	**5.97%**

The $1.47 billion increase in total revenues for the 2013-14 fiscal year consisted of increases in Federal, State, and local revenues of $101 million, $1.02 billion, and $345 million, respectively. Total State revenues increased by 10.36 percent, and the Federal and local revenues increased by 3.24 percent and 2.97 percent, respectively. The increase in State revenues consists of increases of $966 million in State FEFP revenues and $53 million in restricted State revenues. The increase in local revenues is due primarily to an increase in revenue from the capital outlay millage levied by school districts, which increased by $280 million, from $1.79 billion for the 2012-13 fiscal year to $2.07 billion for the 2013-14 fiscal year due to an increase in property values.

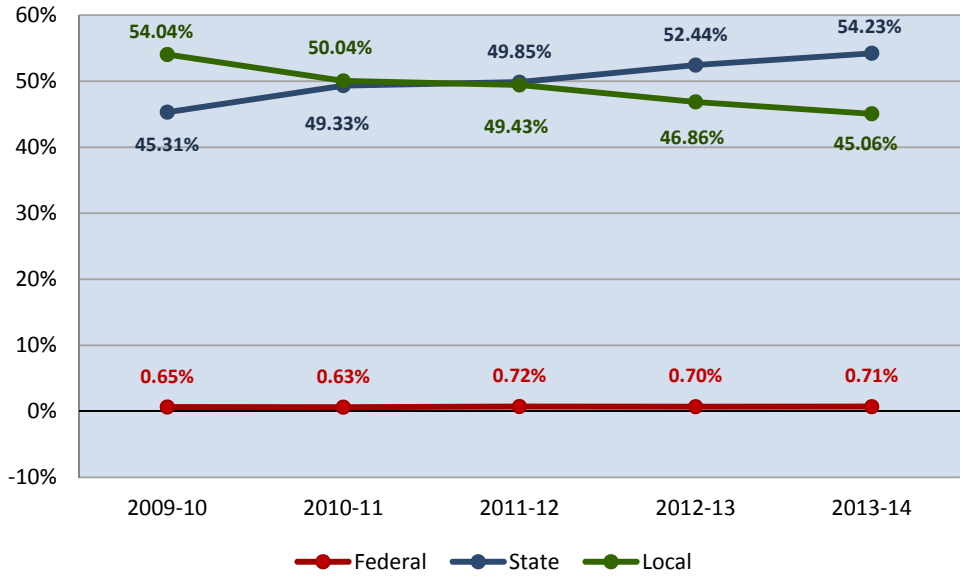
Table 6 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2013-14 and 2012-13 fiscal years.

Table 6
Statewide General Fund Revenues by Source
For the 2012-13 and 2013-14 Fiscal Years

	2012-13		2013-14		Increase	
Source	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent**
Federal	$ 128,605,676	0.70%	$ 138,924,095	0.71%	$ 10,318,419	8.02%
State	9,640,457,591	52.44%	10,614,716,482	54.23%	974,258,891	10.11%
Local	8,614,307,682	46.86%	8,820,357,655	45.06%	206,049,973	2.39%
Totals	**$18,383,370,949**	**100.00%**	**$19,573,998,232**	**100.00%**	**$1,190,627,283**	**6.48%**

As shown in Table 6, the State provided 54.23 percent of the school districts' general fund resources during the 2013-14 fiscal year, while local revenue sources provided 45.06 percent of the general fund resources. As discussed later in this section, Federal funds are restricted and most of those funds are reported in special revenue funds. Chart 3 shows the percentage of revenues from Federal, State, and local sources in the general fund over the last 5 fiscal years.

Chart 3
Percentage of Statewide General Fund Revenues from Federal, State, and Local Sources
For the 2009-10 Through 2013-14 Fiscal Years



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

State and local FEFP revenues for school district operations totaled $14 billion for the 2013-14 fiscal year, and consisted of $7.2 billion in State revenues and $6.8 billion in local revenues. In addition to the $7.2 billion in State revenues for operations as part of the FEFP, the school districts reported $3.6 billion in restricted State revenues. These restricted State revenues were for Class Size Reduction, Workforce Development, School Recognition, and other specific programs.

Other Local Revenues. In addition to the $6.8 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, $2.1 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; $1 billion from discretionary local effort millage levies for operations; $276 million from special voter levies; and $69 million from debt service millage levies for servicing debt. Because of discounts for early payments, property tax revenues are approximately 96 percent of the tax levy. Additional sources of local revenue included sales taxes, impact fees, charges for services, investment income, and other local sources. Twenty-one school districts reported local sales tax revenue totaling $497 million for the 2013-14 fiscal year compared to 22 school districts that reported $467 million for the previous fiscal year. Twenty-six school districts reported impact fee revenue totaling $187 million for the 2013-14 fiscal year, while the same number of school districts reported $162 million for the

previous fiscal year. For 10 school districts, the impact fees were in place, but the fee collections were temporarily suspended due to the economic downturn.

Federal Revenues. Resources of the special revenue funds consist of moneys restricted by Federal and State grantors to be used for specific program purposes, such as 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.

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 2013-14 fiscal year totaled $673 million as compared to $129 million for the 2012-13 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. Until recently, certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,[8] constituted significant State funding for school district new construction and facilities maintenance projects. These statutory appropriations included, but were not limited to, PECO, Classrooms First, Classrooms for Kids, and Capital Outlay and Debt Service (CO&DS), which were predominantly funded using proceeds from the gross receipts and motor vehicle licensing taxes established by State law.[9] As shown by Chart 4, these appropriations to school districts,[10] excluding funding to charter schools, decreased from $74 million for the 2009-10 fiscal year to $33 million for the 2013-14 fiscal year. During the same period, capital outlay funding for charter schools increased from $57 million for the 2009-10 fiscal year to $91 million for the 2013-14 fiscal year.

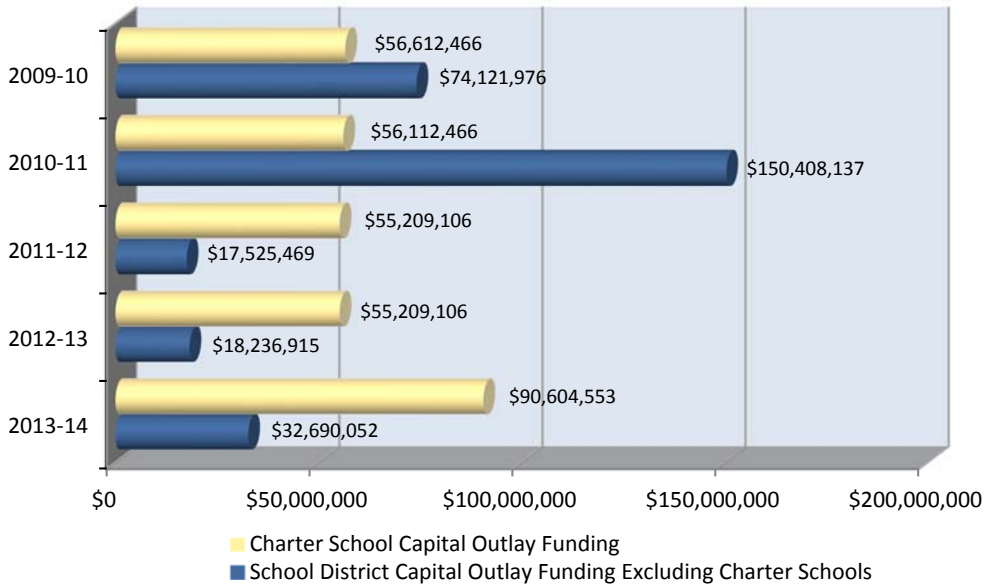
[8] Section 1013.65, Florida Statutes.

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

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

Chart 4
State Capital Outlay Appropriations

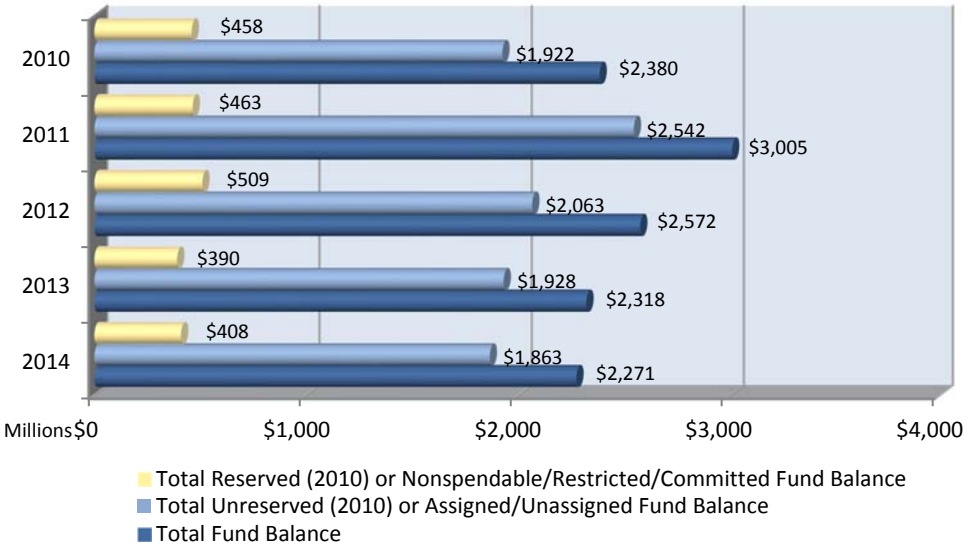
For the 2009-10 Through 2013-14 Fiscal Years



Fund Balance Trends. As shown in Chart 5, total fund balances of the school districts' general funds[11] (operating funds) Statewide decreased from $2.38 billion for the fiscal year ended June 30, 2010, to $2.27 billion for the fiscal year ended June 30, 2014.

Chart 5
Fund Balances of the General Fund

For the Fiscal Years Ended June 30, 2010, Through June 30, 2014 (In Millions)



[11] Beginning June 30, 2011, GASB Statement No. 54 requires the use of nonspendable/restricted/committed fund balance classifications, which are similar to the reserved fund balance classification required prior to that date.

The percentage of unreserved or assigned/unassigned fund balance to total fund balance ranged from a low of 80.2 percent at June 30, 2012, to a high of 84.6 percent at June 30, 2011.

Total fund balance decreased $47 million from the fiscal year ended June 30, 2013, to June 30, 2014, due in part to increases in costs, such as salaries and benefits, for certain school districts. Additionally, in the 2009-10 and 2010-11 fiscal years, certain instructional costs shifted to the special revenue funds where these costs were paid from Federal funds such as ARRA, 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 Incentive and School Improvement grants, most ARRA funding terminated in the 2010-11 fiscal year. An expected increase in the per FTE FEFP allocation for the 2014-15 fiscal year may mitigate further fund balance decreases in the 2014-15 fiscal year.

Financial Condition Measurement

There are several measures that may be used to evaluate the financial condition of governments. One widely used financial condition measure relevant to school districts compares the level of available equity in the operating fund to overall operating resources for that fund for a fiscal year. This measure is an indicator at a point in time of resources available for appropriation to meet the costs of unexpected and nonrecurring events. We used this measure, as shown in Table 7, in analyzing school district financial condition.

Table 7
Financial Condition Measure

$\frac{\text{General Fund Unreserved Fund Balance}}{\text{General Fund Total Revenues}}$	=	Financial Condition Ratio (%)
This measure is used for fiscal years ended before June 30, 2011.		
$\frac{\text{General Fund Total Assigned and Unassigned Fund Balance}}{\text{General Fund Total Revenues}}$	=	Financial Condition Ratio (%)
This measure is used for fiscal years ended June 30, 2011, and thereafter.		

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 considerations of school districts, the established financial management practices followed by school districts, and FDOE oversight, a lower total assigned and unassigned fund balance threshold may be reasonable with acceptable risks.

AUDIT 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 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. Auditors must also report material noncompliance or abuse that has a material effect on the 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 audit reports for 5 school districts contained no findings, while audit reports for the remaining 62 school districts included a total of 550 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the previous fiscal year, the audit reports for 61 school districts included a total of 504 findings. 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 major Federal program noncompliance or internal control deficiencies.

For reports issued by our Office, all audit findings are identified in the independent auditor's reports. For reports issued by other independent CPAs, findings such as material weaknesses and significant deficiencies are identified in the independent auditor's reports, and additional matters are generally included in a separate management letter accompanying the independent auditor's reports.

Financial Statement Material Weakness and Material Noncompliance Findings

The audit reports for three school districts (Madison, St. Lucie, and Taylor) included findings that were considered to be material weaknesses.[12] Pursuant to State law,[13] 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

[12] This represents a decrease from the four audit reports in the previous fiscal year that included material weaknesses, one of which was also considered to be an instance of material noncompliance.

[13] Section 1003.621(1)(a)3., Florida Statutes.

more flexibility than other school districts in meeting the specific requirements of Florida statutes and State Board of Education rules.

The audit reports for the three school districts noted material weakness findings that addressed:

- Control deficiencies in the Madison County School District's monitoring of charter schools. Pursuant to State law,[14] the District needed procedural enhancements to ensure that corrective action plans are developed for charter schools subject to expedited reviews, timely submitted to the FDOE as required, and appropriately monitored. Additionally, one charter school's audit was not obtained and, therefore, the account balances and transactions of the charter school were excluded from the District's financial statements.
- Procedural enhancements needed to ensure the accuracy and completeness of the St. Lucie County School District financial statements.
- Control deficiencies in Taylor County School District's cash collection procedures for school internal funds. The District's school internal funds audit disclosed a material weakness due to incomplete and insufficient evidence to support cash receipts and disbursements for one of the District's schools, resulting in a disclaimer of opinion on the school internal funds financial statements and a qualified opinion on the aggregate remaining fund information of the District.

Financial Statement Significant Deficiency and Additional Matter Findings

The following is a summary of the findings included in 62 school district audit reports that addressed control deficiencies; instances of noncompliance with applicable laws, rules, and regulations; or additional matters.

Financial Condition. Five school districts (Clay, Gadsden, Jefferson, Liberty, and Walton) had findings addressing the school districts' financial condition:

- Clay County School District's general fund total fund balance decreased from $31.8 million at June 30, 2008, to $7.3 million at June 30, 2014. At June 30, 2015, the District's general fund assigned and unassigned fund balance was $5.39 million and the financial condition ratio was 2.24 percent
- The Gadsden County School District general fund assigned and unassigned fund balance declined 47 percent from $2,198,251 at June 30, 2013, to $1,172,507 at June 30, 2014, or a reduction of $1,025,744. The financial condition ratio was 2.84 percent at June 30, 2014; however, the general fund balance could be further reduced if the District is required to restore to the Federal Government $224,650 in questioned costs.
- Jefferson County School District experienced a decline in its financial condition as the general fund total assigned and unassigned fund balance decreased by $473,345, or 61 percent, from $769,872 at June 30, 2013, to $296,527 at June 30, 2014. The financial condition ratio was 3.63 percent at June 30, 2014; however, the ratio could be reduced to below 3 percent if the District is required to use general fund moneys to restore questioned costs totaling $62,004 to the special revenue fund and revert $406,290 of expended, but untimely encumbered, State capital outlay appropriation balances to the FDOE.
- Liberty County School District's general fund total assigned and unassigned fund balance declined 59 percent from $879,340.65 at June 30, 2013, to $359,922.88 at June 30, 2014, or a reduction of $519,417.77. The District had originally reported in its annual financial report a fund balance amount that represented a 3.3 percent financial condition ratio. However, audit

[14] Section 1002.345, Florida Statutes.

adjustments reduced the fund balance by $46,284, resulting in a financial condition ratio of 2.92 percent. Additionally, the general fund balance could be further reduced if the District uses general fund moneys to restore the special revenue – food service fund to a positive fund balance.

- The Walton County School District general fund unassigned fund balance declined $235,045 or 11.24 percent from the previous fiscal year and the financial condition ratio was 2.82 percent at June 30, 2014. The District transferred $175,000 of general fund moneys to subsidize the food service program fund during the 2013-14 fiscal year that contributed to the declining financial condition of the general fund.

Under these circumstances, these school districts have fewer resources available for emergencies and unforeseen situations than other school districts and were at a higher risk of experiencing financial difficulty.

Information Technology. For 38 school districts, various information technology (IT) control deficiencies were noted:

- **Access Controls**. Twenty-nine school districts had various deficiencies in IT access controls. For example, at certain school districts, inappropriate or unnecessary access privileges existed or documentation of user access authorization was not properly maintained. Six of these school districts did not timely terminate former employees' IT access privileges.
- **Data Loss Prevention**. Sixteen 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, and monitor the use and transmission of confidential or sensitive data.
- **User Authentication**. Fifteen school districts needed improvements in security controls related to user authentication for IT applications, such as password setting controls.
- **Logging/Monitoring**. Fifteen school districts had inadequate security control procedures over logging or monitoring of data and IT resources.
- **Disaster Plans**. Nine school districts needed improvements in disaster preparedness and recovery plans or the plans needed to be tested.
- **Security Incident Response Plans**. Seven 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.
- **Risk Assessment**. Seven 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.
- **Written Policies**. Five school districts lacked written IT policies and procedures for certain important IT control functions.
- **Security Awareness**. Three school districts needed security awareness training programs or improvements in existing security awareness training programs.

Record Keeping/Records Management. In addition to the material weakness in financial reporting procedures previously discussed for St. Lucie County School District, the audit reports for 25 school districts included findings addressing the need for improvement in certain record keeping and financial records management procedures. For 18 school districts, procedures needed improvements 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 findings noted the lack of reconciliations between detailed supporting documentation and general ledger accounts, and the lack of an actuarial valuation to support a reported postemployment benefits liability. Additionally, controls over journal entries at 6 school districts needed improvement. For 3 school districts, deficiencies were noted in accountability over transportation and food service department inventories. Also, 3 school districts did not always advertise or maintain minutes for school board or other committee meetings contrary to State law.[15] Other findings and recommendations addressed enhancements needed in budget monitoring and the lack of monthly financial reports to the school board.

Cash and Investment Controls. Audit reports for 18 school districts included findings addressing the need for enhancements in controls over cash or investments. For 7 of these school districts, improvements in bank reconciliation procedures were needed. For 6 school districts, controls over electronic funds transfers (EFTs) needed improvement. Deficiencies noted in EFTs included the lack of school board-approved policies and procedures prescribing EFT accounting and controls, contrary to State rules;[16] EFT bank agreements that omitted critical information, such as the names and signatures of school district employees authorized to initiate EFTs; EFT agreements that authorized former employees to make EFTs; and EFT agreements or school district procedures that did not provide for appropriate separation of duties. Funds available for EFTs at the 6 school districts ranged from approximately $3.4 million to $578 million. Audit reports for 6 school districts also noted that improvements in controls were needed over decentralized collections, such as food service collections and school extended day program fee collections. In addition, 2 school districts needed to improve controls over investments.

Capital Assets Management. The audit reports for seven school districts addressed deficiencies in the accountability for long-lived assets, including land, improvements other than buildings, buildings and fixed equipment, and tangible personal property. Three school districts did not adequately maintain detailed subsidiary records for capital assets to be used for reconciliation with general ledger account. For two school districts, deficiencies were noted in tangible personal property accountability procedures, such as the lack of adequate physical inventory procedures including procedures for reporting missing items. Controls over the use of school district vehicles, such as monitoring of vehicle usage logs, needed enhancement at two school districts. Additionally, one school district's controls over land acquisition agreements needed improvement.

Expenditures/Purchasing. For 43 school districts, audit report findings addressed the need to improve controls over purchasing practices and operating expenditures. For 41 school districts, procurement procedures could be enhanced to provide for routine review of required statements of financial interests

[15] Section 286.011, Florida Statutes (commonly referred to as the Sunshine Law).

[16] State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code.

for consideration in making procurement decisions. Contract monitoring procedures at 7 school districts needed to be enhanced to ensure that contracts clearly describe the nature and timing of deliverables and payments are consistent with contract terms and conditions. For 3 school districts, improvements were needed in purchasing cards controls, such as controls for monitoring credit limits, reviewing and approving charges prior to payment, and timely canceling employees' card accounts upon the employee's separation from employment. Three school districts' controls over procuring enterprise resource planning (ERP) software or computer hardware needed improvement. These school district records did not clearly demonstrate the purchases were made at the lowest price consistent with desired quality. One school district did not comply with the competitive selection requirements of State law[17] when selecting an auditor to conduct its financial audit.

Payroll and Personnel. Audit report findings for 38 school districts addressed the need to improve controls over payroll and personnel:

- **Personnel Administration**. For 21 school districts, improvements were needed in controls over various areas of personnel administration. For 17 of these school districts, procedures for performing background screenings or rescreening of employees and contracted vendors with direct student contact were not adequate. Other control deficiencies were noted in procedures relating to hiring new personnel and promotions, and reporting the taxable value of using district-owned vehicles for personal purposes.
- **Compensation**. For 13 school districts, school boards had not established a documented process to identify certain school district personnel entitled to differentiated pay using the factors prescribed in State law.[18]
- **Monitoring of Bus Drivers**. For 9 school districts, controls over monitoring school bus drivers needed enhancements. The findings addressed the lack of documented review of bus driver history records to comply with requirements under State rule.[19]
- **Payroll Processing**. For 9 school districts, procedural enhancements were needed to sufficiently and appropriately evidence employee time worked and to document supervisory review and approval of salary payments.
- **Severance Pay**. Four school districts had findings that addressed noncompliance with the severance pay provisions of State law.[20] Employment agreements for the superintendent, board attorney, or others at these school districts included severance pay provisions that allowed for severance pay that exceeded 20 weeks of salary, contrary to State law.

Insurance. For 38 school districts, audit report findings addressed the need to improve controls over insurance programs:

- **Health Insurance Participant Eligibility and Premium Monitoring**. For 35 school districts, procedural improvements were needed for verifying eligibility of dependents covered by the school districts' health insurance plans. Additionally, 8 of these school districts lacked procedures related to health insurance premium payments, such as reconciliations of insurance billings to payroll records, to ensure that board health insurance premium contributions were only for eligible participants and that contribution amounts were consistent with board-approved salary schedules.

[17] Section 218.391, Florida Statutes.

[18] Section 1012.22(1)(c)4.b., Florida Statutes.

[19] SBE Rule 6A-3.0141(6), Florida Administrative Code.

[20] Section 215.425, Florida Statutes.

- **Self-Insurance Program Financial Condition**. For 4 school districts, findings addressed the need to improve controls over the monitoring of the financial condition of self-insurance plans. These school districts had not established policies identifying a target net position or funding level for the self-insurance plans or had not taken appropriate actions to ensure adequate funding of the plans.
- **Other**. Two school districts needed improvements in controls over monitoring a third-party administrator of the self-insurance plan, such as periodic reviews by the school district of insurance claims paid by the third-party administrator. When procuring health and life insurance, another school district did not use competitive bidding procedures required by State law.[21]

Capital Construction and Related Expenditures. Audit report findings for 21 school districts addressed the need to improve controls over construction and capital outlay expenditures:

- **Construction Monitoring**. For 6 school districts, improvements were needed in controls over construction management entity (CME) guaranteed maximum price and subcontractor contract monitoring. The findings and recommendations noted needed enhancements in controls over general conditions cost, monitoring payment requests from CMEs, and monitoring subcontractor selection and licensure status.
- **Acquiring Professional Services**. Findings related to procurement of CME or architectural design professionals were noted at 5 school districts. Four of these school districts did not have adequate procedures to establish minimum insurance requirements for architects or construction contractors. In addition, 2 of these school districts did not follow State law[22] by competitively selecting the CME or design professional and 1 school district's CME contract did not contain required provisions such as completion date and penalty clauses.
- **Construction Planning**. Findings at 4 school districts identified needed procedural enhancements 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 composed of various stakeholders and required 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.
- **Restricted Capital Outlay Resources**. Audit reports for 13 school districts, noted control deficiencies related to restricted capital outlay resources:
    - Records at 9 school districts did not evidence that the districts used proceeds from ad valorem tax levies or other restricted capital outlay sources for purposes consistent with applicable statutory provisions. Contrary to State law,[23] 8 school districts expended ad valorem tax levy proceeds, ranging from $32,965 to $1.5 million, for unallowable purposes such as vehicle maintenance staff salaries and repair parts, custodial and groundskeeping service costs, purchases for non-ERP software with a useful life less than 5 years, ERP software maintenance and support service costs, software application, and Internet fees. For 1 school district, fuel tax refunds of $959,306 were not used for the purposes authorized by State law.[24]

[21] Section 112.08(2)(a), Florida Statutes.

[22] Section 287.055, Florida Statutes.

[23] Section 1011.71, Florida Statutes.

[24] Section 206.41(4)(e)2., Florida Statutes.

- Contrary to State law,[25] 3 school districts did not properly advertise the intended uses of ad valorem tax proceeds resulting in questioned costs ranging from $44,255 to $61,650.
- Two school districts needed to resolve Public Education Capital Outlay questioned costs of $78,821 and $406,290, respectively, which were subject to reversion to the State pursuant to State law.[26]

Adult General Education Classes. State law[27] provides that each school district shall report enrollment for adult general education programs identified in State law[28] in accordance with FDOE instructional hours reporting procedures. The audit reports for 20 school districts included findings that the school districts misreported enrollment data. Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that such data be reported correctly.

Virtual Instruction Programs. Audit reports for 36 school districts addressed deficiencies in the administration and oversight of the school district virtual instruction program (VIP) and noncompliance with provisions of State law:[29]

- **Written Policies and Procedures**. Thirty-three school districts needed to develop and maintain comprehensive, written VIP policies and procedures.
- **Written Parental Notification**. Twenty-nine school districts did not timely notify parents regarding student opportunities to participate in a VIP.
- **VIP Options**. Procedures at 18 school districts needed enhancement to ensure that the required number of VIP options is offered.
- **Provider Contracts**. Seventeen school districts did not include all the provisions required by State law in the VIP provider contracts or the contracts lacked certain necessary provisions.
- **Provider Background Screenings**. Procedures at 17 school districts were not adequate to ensure that required background screenings for VIP provider employees and contracted personnel were performed.
- **Computing Resources and Instructional Materials**. Eleven school districts needed to enhance procedures for notifying VIP students and their parents about the availability of computing resources and to ensure that qualified VIP students are provided free computing resources.
- **Student Compulsory Attendance**. For 6 school districts, procedures did not always require written, documented verification that VIP students complied with compulsory attendance requirements.
- **Other**. Procedures at 4 school districts needed enhancement to ensure that students met the statutory eligibility criteria[30] to participate in a VIP. One school district did not obtain evidence that VIP teachers were certified.

[25] Section 200.065, Florida Statutes.

[26] Section 216.301(2), Florida Statutes.

[27] Chapter 2013-40, Laws of Florida, Specific Appropriation 117.

[28] Section 1004.02, Florida Statutes.

[29] Section 1002.45, Florida Statutes.

[30] Section 1002.455(2), Florida Statutes.

Workforce Development Funds. For five school districts, workforce development funds were sometimes used for purposes other than those authorized by State law,[31] or the districts did not have a spending plan for the use of unspent funds.

Rebates. Certain Federal and State resources are typically restricted by Federal or State law and rebates generated by expenditures of those resources may be subject to the same restrictions. Four school districts did not allocate e-Payable or purchasing card program rebates generated by restricted resources to appropriate school district funds, increasing the risk that these rebates may be used for purposes inconsistent with the restrictions on these resources.

Direct Support Organizations. Four school districts paid to the districts' direct-support organizations (DSOs) for certain expenditures incurred by the DSOs, which were not authorized by law, resulting in questioned costs ranging from $7,950 to $544,489.

Food Service Operations. At four school districts, enhancements over food service operations were needed. Three of these school districts needed improvement in monitoring the financial condition of the food service program. These school districts reported declining fund balances in the special revenue – food service fund, and used unrestricted general fund moneys to supplement the food service program operations. Continued use of unrestricted general fund resources to subsidize the food service programs reduces funds available for other educational programs and could adversely impact efforts to maintain an adequate fund balance in the general fund. Another school district lacked procedures in monitoring the purchased food cost per meal.

Charter Schools. In addition to the material weakness finding for the Madison County School District previously discussed, the audit reports for two other school districts addressed control deficiencies over the monitoring of charter schools. These school districts needed to enhance procedures to ensure that, upon terminations of charter schools, financial audit reports are obtained and property and unencumbered funds are returned to the school districts.

Miscellaneous Findings. In addition to the findings described above, audit findings addressing various other matters were also included in individual school district audit reports. These matters included, for example, noncompliance with educational facility safety standards; the lack of timely completion of school internal funds audits; and the insufficiency of anti-fraud policies.

Federal Awards Findings

For 25 school districts, audit report findings addressed major Federal program noncompliance and control deficiencies. Major Federal program material noncompliance and material internal control weaknesses were noted at 5 school districts (Columbia, Escambia, Liberty, Madison, and Union). These findings addressed material noncompliance with the Federal compliance requirements of Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; Subrecipient Monitoring; and Special Tests and Provisions; and related to major programs including the Special Education Cluster, Pell Grant, Charter School, Child Nutrition Cluster, Title I, Improving Teacher Quality, and Teacher Incentive Fund programs. Other findings that were not considered material noncompliance addressed various Federal compliance

[31] Chapter 2013-40, Laws of Florida, Specific Appropriation 117.

requirements for the Child Nutrition Cluster, Special Education, Title I, Improving Teacher Quality, Teacher Incentive Fund, School Improvement Grants, Twenty-First Century, and other Federal programs.

OTHER MATTERS OF INTEREST

Repeated Findings From Prior Fiscal Years

State law[32] requires the Auditor General to notify the Legislative Auditing Committee of any audit report prepared for a district school board that indicates the district school board failed to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports. Of the 550 findings included in the 2013-14 fiscal year audit reports reviewed, 93 (17 percent) were also included in previous financial or operational audit reports for at least 2 consecutive fiscal years. This represents a decrease from the 114 findings or 23 percent similarly noted for the previous fiscal year.

Pursuant to State law, on July 21, 2015, we notified the Legislative Auditing Committee of 35 district school boards that failed to take full corrective action in response to one or more recommendations included in the two preceding audit reports. This represents a decrease from 43 district school boards noted the previous year.

School District Budget Transparency

State law[33] requires each district school board to post on its Web site a plain language version of each proposed, tentative, and official budget describing each budget item in easily understandable terms. The law includes a list of items recommended for inclusion on the Web sites, such as budget hearing information, contracts with teachers' unions and noninstructional staff, and contracts with vendors exceeding $35,000. This statutory requirement enables taxpayers, parents, and education advocates to readily obtain school district budget and related information in a simply explained and easily understandable manner. Budgetary transparency leads to more responsible spending, more citizen involvement, and improved accountability.

Pursuant to State law,[34] on June 22, 2015, we notified the President of the Senate, the Speaker of the House of Representatives, and the Florida Department of Financial Services that five school districts (Jefferson, Leon, Madison, Miami-Dade, and Taylor) were reported for noncompliance with the transparency requirements.

[32] Section 218.39(8), Florida Statutes.

[33] Section 1011.035, Florida Statutes.

[34] Section 11.45(7)(i), Florida Statutes.

OBJECTIVES, SCOPE, AND METHODOLOGY

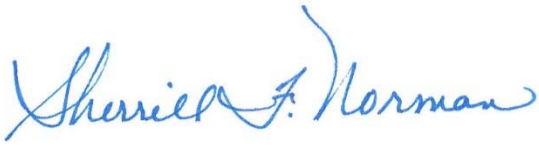
The objective of this project was to identify significant financial trends and findings based on our review of school district audit reports.

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, 2014.

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 significant findings and financial trends identified in district school board audit reports for the fiscal year ended June 30, 2014.



Sherrill F. Norman, CPA
Auditor General