STATE OF FLORIDA AUDITOR GENERAL

Report No. 2017-035
October 2016

REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2014-15 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 Micah E. Rodgers, CPA, Audit Supervisor, by e-mail at micahrodgers@aud.state.fl.us or by telephone at (850) 412-2905.

This report and other reports prepared by the Auditor General are available at:

www.myflorida.com/audgen

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2014-15 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 2014-15 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, 2016.

Significant Financial Trends

At June 30, 2015, the average financial condition ratio[1] for school districts Statewide was 8.69 percent, which is 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, 2015. In these circumstances, these 5 school districts had fewer resources available for emergencies and unforeseen situations than the other school districts.

Significant Findings

The audit reports for 54 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 5 school districts included findings considered to be material weaknesses, which represents an increase compared to the audit reports for 3 school districts that included material weaknesses for the previous fiscal year.

BACKGROUND

State law[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.

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

[2] Sections 11.45 and 218.39, Florida Statutes.

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

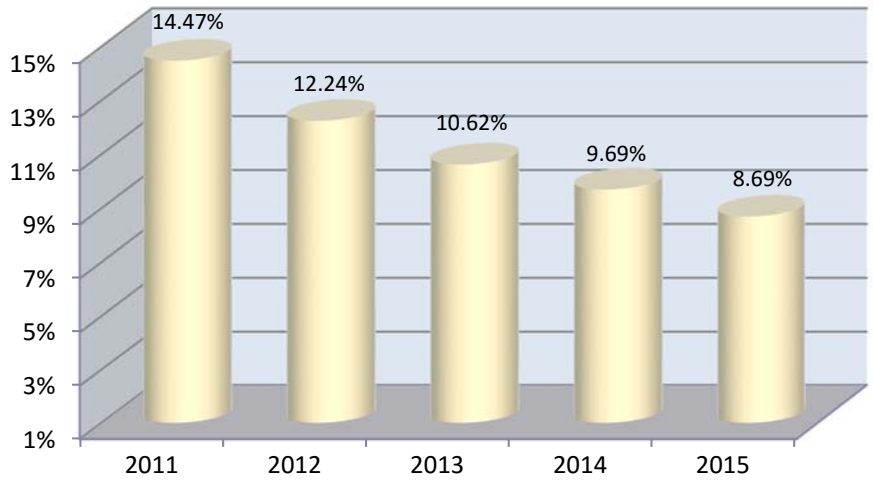
FINANCIAL TRENDS

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 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 of the general fund total assigned and unassigned fund balance to the general fund total revenues. Chart 1 shows the average financial condition ratios for the fiscal years ended June 30, 2011, through June 30, 2015. As shown in Chart 1, the average financial condition ratio was 8.69 percent at June 30, 2015, which is 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, 2011, and 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. 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, 2011, Through June 30, 2015



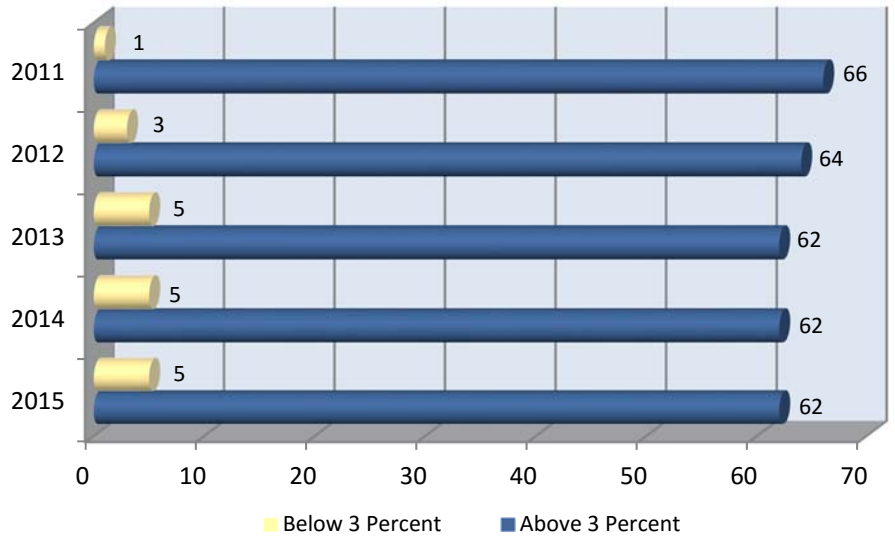
State law[4] requires each school district to maintain a general fund ending fund balance that is sufficient to address normal contingencies. If at any time the financial condition ratio determined from the school district's approved operating budget is projected to fall below 3 percent during the current fiscal year, school district superintendents must notify the Commissioner of Education and respective school board.

[4] Section 1011.051, Florida Statutes.

Chart 2 shows the number of school districts with financial condition ratios below and above 3 percent for the fiscal years ended June 30, 2011, through June 30, 2015.

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

For the Fiscal Years Ended June 30, 2011, Through June 30, 2015



As indicated in Chart 2, the number of school districts with financial condition ratios below 3 percent at fiscal year-end increased 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 the five school districts with financial condition ratios below 3 percent at June 30, 2015, and the number of consecutive years that the districts' ratios had been below 3 percent at fiscal year-end.

Table 1
School Districts with Financial Condition Ratios Below 3 Percent

Number	School District	Financial Condition Ratios Fiscal Year Ended June 30, 2015	Number of Consecutive Years Ratio Below 3 Percent
1	Clay	2.08%	3
2	Hernando	2.16%	1
3	Highlands	2.09%	1
4	Jefferson	-3.02%	1
5	Levy	2.99%	1

For the 2010-11 through 2014-15 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, 2015. Historically, school districts that experience weak financial conditions implement measures that generally restore the financial conditions to favorable positions within 1 to 2 fiscal years.

If at any time a school district's financial condition ratio, determined from the school district's approved operating budget, is projected to fall below 2 percent, State law[5] 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,[6] 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, only one school district (Jefferson) had a financial condition ratio below 2 percent at June 30, 2015.

Factors Impacting Financial Condition

As previously discussed, the financial condition ratios for the fiscal years ended June 30, 2011, and 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 $1.38 trillion in the 2011 calendar year to $1.65 trillion in the 2015 calendar year, or an increase of 19.6 percent. Due to this increase, which was partially offset by decreases in millage rates levied, Statewide property tax levies for school district operations increased from $10.64 billion for the 2010-11 fiscal year to $12.02 billion for the 2014-15 fiscal year, or an increase of 13 percent.

Increasing Enrollment. Statewide student enrollment increased from 2,613,726 for the 2010-11 fiscal year to 2,706,033 for the 2014-15 fiscal year, or an increase of 3.5 percent. A total of 40 school districts experienced enrollment growth during this period, including 17 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 enrollment projections.

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

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

Table 2
School Districts with Enrollment Growth of 1,000 or More Unweighted FTE Students
From the 2010-11 to 2014-15 Fiscal Years

		Unweighted FTE		
Number	**School District**	**2010-11**	**2014-15**	**Increase**
1	Orange	174,720	190,380	15,660
2	Hillsborough	192,852	204,491	11,639
3	Palm Beach	172,832	183,489	10,657
4	Broward	255,690	264,107	8,417
5	Lee	80,820	88,349	7,529
6	Miami-Dade	345,375	351,610	6,235
7	Osceola	52,893	58,465	5,572
8	St. Johns	30,592	34,886	4,294
9	Polk	93,810	97,877	4,067
10	Manatee	43,516	46,931	3,415
11	Duval	125,172	128,533	3,361
12	Pasco	65,913	68,116	2,203
13	Collier	42,430	44,621	2,191
14	Bay	25,127	26,820	1,693
15	Seminole	63,907	65,428	1,521
16	Okaloosa	28,582	29,972	1,390
17	Walton	7,253	8,298	1,045

Declining Enrollment. While student enrollment increased in total for school districts from the 2010-11 fiscal year to the 2014-15 fiscal year, 27 school districts experienced enrollment declines during this period. Of these 27 school districts, only Pinellas School District declined by 1,000 or more unweighted FTE.[7]

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.

[7] From the 2010-11 fiscal year to the 2014-15 fiscal year, the unweighted FTE at Pinellas School District declined by 1,039 students, from 103,142 to 102,103 students.

Future Financial Trends Considerations

State Funding. For the 2014-15 fiscal year, the base Florida Education Finance Program (FEFP) allocation was $4,032 per weighted FTE student, which represents an increase of $280 from the base FEFP allocation of $3,752 per weighted FTE student for the 2013-14 fiscal year. Also, based on the 2015-16 fiscal year FEFP final calculation, the base FEFP allocation for the 2015-16 fiscal year increased by $123 per weighted FTE student from the 2014-15 fiscal year final allocation to $4,155. The weighted FTE in school districts increased by 33,685 from the 2013-14 fiscal year to the 2014-15 fiscal year and, increased further by 39,362 in the 2015-16 fiscal year. These increases are relatively significant 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, 2015, consisted primarily of: COPs totaling $11.4 billion; Qualified School Construction Bonds (QSCBs), Qualified Zone Academy Bonds (QZABs), and Build America Bonds (BABs) totaling $942 million, $263 million, and $98 million, respectively; and school district revenue, general obligation, and State Board of Education bonds totaling $742 million, $478 million, and $266 million, respectively. Additionally, school districts had $93 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, 2015, pledged resources were generally sufficient to cover the required debt service by school districts.

The seven school districts that had variable interest rate COPs at June 30, 2015, had entered into a total of 17 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, 2015, total fair values of the interest rate swap agreements for each of the seven school districts ranged from $203,652 to negative $74 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, 2015, each of these seven school districts had sufficient available resources to meet their respective debt service requirements.

School District Trends

Funding Trends. School district governmental funds include the general fund, special revenue funds, debt service funds, and capital projects funds. School districts frequently have fiduciary funds (agency and trust funds) and proprietary funds (primarily internal service funds that account for such activities as self-insurance programs). However, substantially all of a school district's resources are accounted for in the governmental funds. As shown in the Table 3, school districts reported revenues of $27 billion in the governmental funds for the 2014-15 fiscal year, an increase of $908 million, or 3.49 percent, from the previous fiscal year.

Table 3
Statewide Revenues – All Governmental Funds
For the 2013-14 and 2014-15 Fiscal Years

	2013-14		2014-15		Increase	
Governmental Fund Type	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
General Fund	$19,573,998,232	75.27%	$20,195,815,836	75.04%	$621,817,604	3.18%
Other Funds	6,430,607,985	24.73%	6,716,474,232	24.96%	285,866,247	4.45%
Totals	**$26,004,606,217**	**100.00%**	**$26,912,290,068**	**100.00%**	**$907,683,851**	**3.49%**

Table 4 shows, by source, the total governmental fund type revenues reported by school districts for the 2013-14 and 2014-15 fiscal years, and the related increase in these revenues.

Table 4
Statewide Revenues by Source – All Governmental Funds
For the 2013-14 and 2014-15 Fiscal Years

	2013-14		2014-15		Increase	
Source	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Federal	$ 3,217,606,545	12.37%	$ 3,218,485,113	11.96%	$ 878,568	0.03%
State	10,857,871,767	41.75%	11,064,139,576	41.11%	206,267,809	1.90%
Local	11,929,127,905	45.88%	12,629,665,379	46.93%	700,537,474	5.87%
Totals	**$26,004,606,217**	**100.00%**	**$26,912,290,068**	**100.00%**	**$907,683,851**	**3.49%**

The $908 million increase in total revenues for the 2014-15 fiscal year consisted of increases in Federal, State, and local revenues of $0.9 million, $206 million, and $701 million, respectively. Total local revenues increased by 5.87 percent and State revenues increased by 1.9 percent. The increase in local revenues is due primarily to increases in property values which resulted in increased revenues generated from the required local effort and capital outlay levies by $350 million and $160 million, respectively. The increase in State revenues consists of increases of $187 million in State FEFP revenues and $19 million in restricted State revenues.

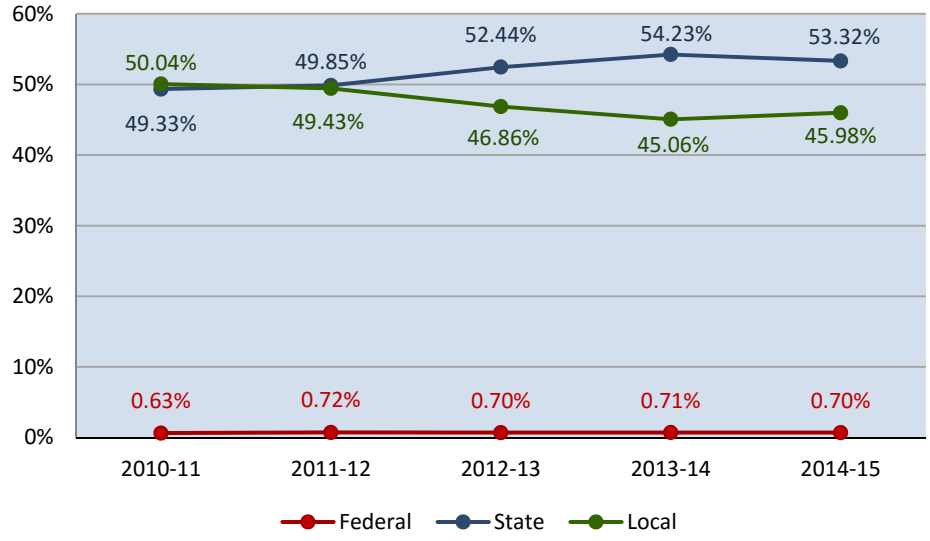
Table 5 shows the Federal, State, and local sources reported in the school districts' general funds (operating funds) for the 2013-14 and 2014-15 fiscal years, and the related increase in these revenues.

Table 5
Statewide General Fund Revenues by Source
For the 2013-14 and 2014-15 Fiscal Years

	2013-14		2014-15		Increase	
Source	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent**
Federal	$ 138,924,095	0.71%	$ 141,396,137	0.70%	$ 2,472,042	1.78%
State	10,614,716,482	54.23%	10,767,775,115	53.32%	153,058,633	1.44%
Local	8,820,357,655	45.06%	9,286,644,584	45.98%	466,286,929	5.29%
Totals	**$19,573,998,232**	**100.00%**	**$20,195,815,836**	**100.00%**	**$621,817,604**	**3.18%**

As shown in Table 5, the State provided 53.32 percent of the school districts' general fund resources during the 2014-15 fiscal year, while local revenue sources provided 45.98 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 Statewide general fund revenues from Federal, State, and local sources for the 2010-11 through 2014-15 fiscal years.

Chart 3
Percentage of Statewide General Fund Revenues
From Federal, State, and Local Sources
For the 2010-11 Through 2014-15 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. 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 $14.6 billion for the 2014-15 fiscal year, and consisted of $7.4 billion in State revenues and $7.2 billion in local revenues. In addition to the $7.4 billion in State revenues for operations as part of the FEFP, the school districts reported $3.7 billion in restricted State revenues. These restricted State revenues were for Class Size Reduction, Workforce Development, School Recognition, and other specific programs.

Other Local Revenues. In addition to the $7.2 billion in local revenues for funding operations as part of the FEFP, the school districts reported $5.4 billion in other local revenues. These local revenues included, but were not limited to, $2.2 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; $1.1 billion from discretionary local effort millage levies for operations; $272 million from special voter levies; and $45 million from debt service millage levies for servicing debt. Because of discounts for early payments, property tax revenues were approximately 96 percent of the tax levy. Additional sources of local revenue included sales taxes, impact fees, charges for services, investment income, and other local sources. Twenty-four school districts reported local sales tax revenue totaling $557 million for the 2014-15 fiscal year compared to 21 school districts that reported local sales tax revenue totaling $497 million for the previous fiscal year. Twenty-six school districts reported impact fee revenue totaling $251 million for the 2014-15 fiscal year, while the same number of school districts reported impact fee revenue totaling $187 million for the previous fiscal year. For 9 school districts, the impact fees were in place during the 2014-15 fiscal year, 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 2014-15 fiscal year totaled $391 million as compared to $673 million for the 2013-14 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.

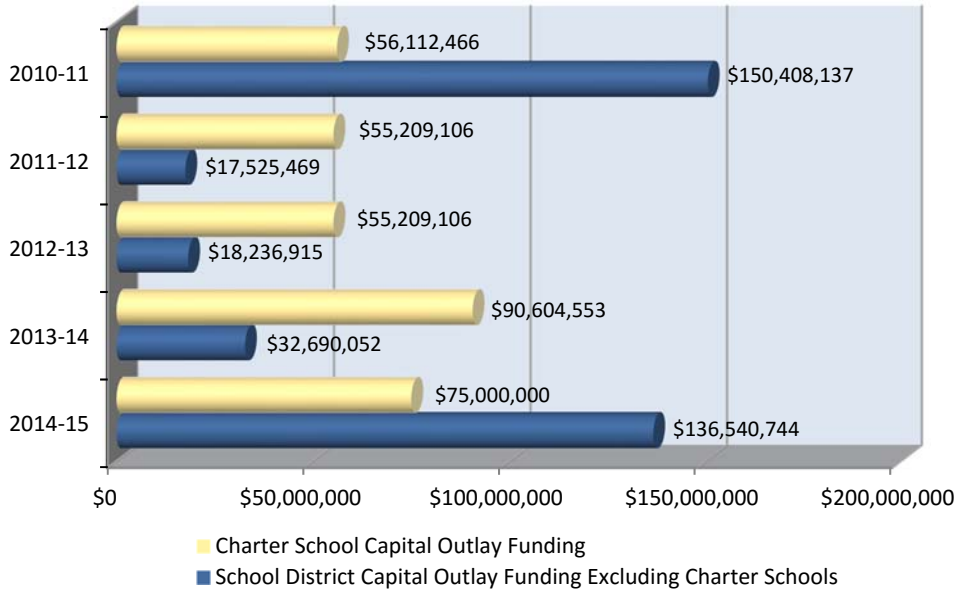
State Capital Outlay Appropriations. Historically, certain statutory appropriations, such as Public Education Capital Outlay (PECO) appropriations authorized by State law,[8] constituted significant State funding for school district new construction and facilities maintenance projects. These statutory 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 the State Constitution.[9] As shown in

[8] Section 1013.65, Florida Statutes.

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

Chart 4, these appropriations to school districts,[10] excluding funding to charter schools, decreased from $150.4 million for the 2010-11 fiscal year to under $33 million for the next 3 fiscal years before increasing to $136.5 million for the 2014-15 fiscal year.

Chart 4
State Capital Outlay Appropriations
For the 2010-11 Through 2014-15 Fiscal Years

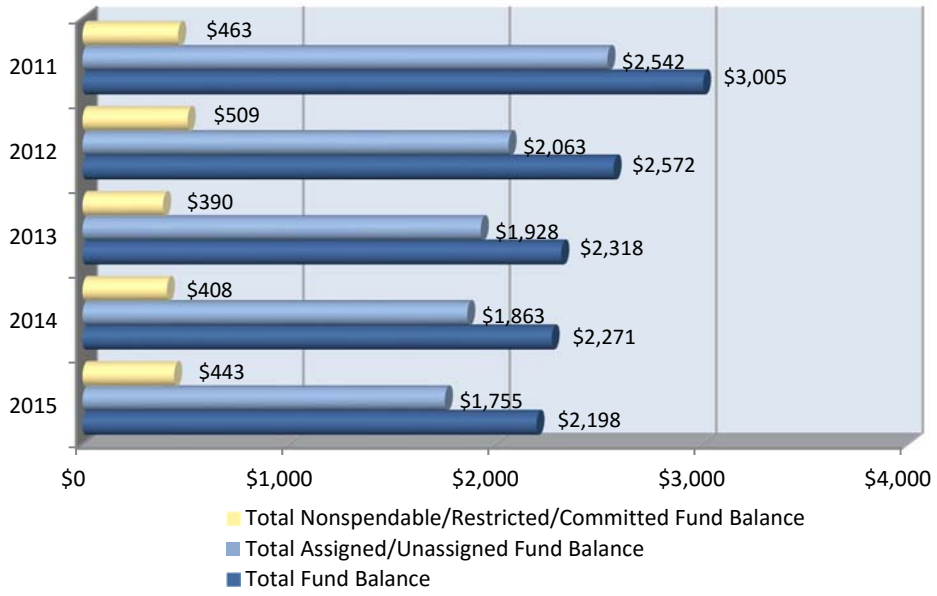


The increase for the 2014-15 fiscal year was in due, in part, to PECO Special Facilities appropriations, which increased from $7.9 million during the 2013-14 fiscal year to $59.7 million during the 2014-15 fiscal year. During the same period, capital outlay funding for charter schools ranged from a low of $55.2 million for each of the 2011-12 and 2012-13 fiscal years to a high of $90.6 million for the 2013-14 fiscal year.

Fund Balance Trends. As shown in Chart 5, total fund balances of the school districts' general funds (operating funds) Statewide decreased from $3 billion for the fiscal year ended June 30, 2011, to $2.2 billion for the fiscal year ended June 30, 2015.

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

Chart 5
Fund Balances of the General Fund
For the Fiscal Years Ended June 30, 2011, Through June 30, 2015
(in Millions)



The percentage of assigned and unassigned fund balance to total fund balance ranged from a low of 79.8 percent at June 30, 2015, to a high of 84.6 percent at June 30, 2011.

Total fund balance decreased $73 million from the fiscal year ended June 30, 2014, to June 30, 2015, due in part to increases in costs, such as salaries and benefits, for certain school districts. The increase in the per FTE FEFP allocation for the 2015-16 fiscal year may mitigate further fund balance decreases in the 2015-16 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 6, in analyzing school district financial condition.

Table 6
Financial Condition Measure

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

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. 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 Florida Department of Education 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements would not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Auditors must also report material noncompliance or abuse that has a material effect on a financial statement audit. The classification of an audit finding is dependent upon its potential impact on the specific school district under audit. Therefore, the classification of an audit finding could vary from school district to school district.

For the 2014-15 fiscal year, the audit reports for 13 school districts contained no findings, while audit reports for the remaining 54 school districts included a total of 325 findings addressing weaknesses in internal control; instances of noncompliance with applicable laws, rules, or regulations; or additional matters. In the 2013-14 fiscal year, the audit reports for 62 school districts included a total of 550 findings. For purposes of this report, audit findings are generally classified in one of three categories:

- 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.
- Significant deficiencies as defined above, instances of noncompliance with applicable laws or rules, or additional matters that should be addressed by management.
- Instances of major Federal program noncompliance, internal control deficiencies, and questioned costs.

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 the 2014-15 fiscal year for five school districts (Gadsden, Glades, Jefferson, Leon, and Manatee) included findings that were considered to be material weaknesses.[11] Four of these school districts (Gadsden, Glades, Jefferson, and Manatee) needed procedural enhancements to ensure the accuracy and completeness of financial statements, and one school district (Leon) needed improvements in internal controls to strengthen accountability for capital assets. No school district audit report contained a material noncompliance or abuse finding.

Pursuant to State law,[12] a school district cited with a material weakness or an instance of material noncompliance in a financial audit is ineligible for recognition as an academically high-performing school district. Academically high-performing school districts are granted more flexibility than other school districts in meeting the specific requirements of Florida statutes and State Board of Education (SBE) rules.

Financial Statement Significant Deficiency and Additional Matter Findings

The following is a summary of the findings included in 54 school district audit reports for the 2014-15 fiscal year that addressed control deficiencies; instances of noncompliance with applicable laws, rules, and regulations; or additional matters.

Financial Condition. Five school districts (Clay, Hernando, Highlands, Jefferson, and Levy) had findings addressing the school districts' financial condition:

- Clay County School District's general fund total assigned and unassigned fund balances have remained slightly over 2 percent of the fund's total revenues at June 30, 2015, and at the end of each of the 2 previous fiscal years (June 30, 2013, and June 30, 2014). Additionally, the general fund balance could be further reduced if the District uses the general fund balance to subsidize its internal service fund for increased worker's compensation rates and if the District is required to restore questioned costs totaling $238,041 to various Federal programs.
- Hernando County School District's general fund total assigned and unassigned fund balance declined 75 percent from $12,895,283 at June 30, 2014, to $3,250,295 at June 30, 2015, representing a fund balance reduction of $9,644,988, which may have been due in part to insufficient budgetary and financial monitoring. The District had originally reported in its annual financial report a fund balance amount that represented a 3.27 percent financial condition ratio; however, audit adjustments reduced the fund balance resulting in a financial condition ratio of 2.16 percent at June 30, 2015. Additionally, the general fund balance may be further reduced if the District is required to restore questioned costs totaling $473,861 to the capital projects – local capital improvement fund.
- Highlands County School District experienced a decline in its financial condition as the general fund total assigned and unassigned fund balance decreased by 49 percent from $3,534,367 at June 30, 2014, to $1,800,085 at June 30, 2015, representing a fund balance reduction of $1,734,282. District control deficiencies relating to insufficient budgetary and financial monitoring may have contributed to the significant fund balance decrease. The financial condition ratio was 2.09 percent at June 30, 2015.

[11] This represents an increase over the three audit reports in the previous fiscal year that included material weaknesses.

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

- Jefferson County School District's financial condition ratio fell below 2 percent during the 2014-15 fiscal year and, pursuant to State law,[13] the District's Superintendent notified the School Board and the Florida Department of Education (FDOE) of the financial condition, and the District submitted a fiscal recovery plan to the FDOE. Notwithstanding the fiscal recovery plan, the District experienced a significant decline in its financial condition as the general fund total assigned and unassigned fund balance decreased 181.8 percent from $296,527 at June 30, 2014, to a deficit of $242,542 at June 30, 2015, and a financial condition ratio of negative 3.02 percent. Additionally, the general fund balance could be further reduced if the District is required to use the general fund balance to restore to Federal programs questioned costs totaling $324,473. District control deficiencies, such as insufficient bank account reconciliations and budgetary and financial monitoring weaknesses, may have contributed to the fund balance decrease.
- The Levy County School District's general fund total unassigned and assigned fund balance decreased by $109,779, or 8.3 percent, from $1,326,098 at June 30, 2014, to $1,216,319 at June 30, 2015. The District's financial condition ratio at June 30, 2015, was 2.99 percent.

Under these circumstances, these school districts have significantly 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 33 school districts, various information technology (IT) control deficiencies were noted. Specifically:

- **Access Controls**. Twenty-three school districts had various deficiencies in IT access controls. For example, at certain school districts, inappropriate or unnecessary access privileges existed or procedures for the periodic review of IT access privileges were not in place. Additionally, one of these school districts did not timely deactivate former employees' IT access privileges.
- **Data Loss Prevention**. Thirteen 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**. Ten school districts needed improvements in security controls related to user authentication for IT applications, such as password setting controls.
- **Disaster Plans**. Nine school districts had not developed written, comprehensive IT disaster recovery plans or needed improvements in existing disaster preparedness or recovery plans.
- **Logging/Monitoring**. Eight school districts had inadequate security control procedures over logging or monitoring of data and IT resources.
- **Security Awareness**. Six school districts needed security awareness training programs or improvements in existing security awareness training programs.
- **Risk Assessment**. Five 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.
- **Security Incident Response Plans**. Four school districts lacked written security incident response plans or needed enhancements in existing plans. Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response

[13] Section 1011.051, Florida Statutes.

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.

Record Keeping/Records Management. In addition to the material weaknesses in financial reporting procedures previously discussed for Gadsden, Glades, Jefferson, and Manatee County School Districts, the audit reports for 17 school districts included findings addressing the need for improvement in certain record keeping and financial records management procedures. For 10 of these school districts, procedures needed improvements to ensure the accuracy and completeness of the financial statements. While most of these findings related to required audit adjustments for the accuracy of the financial statements, one finding included the lack of an actuarial valuation to support a reported postemployment benefits liability. For 4 school districts, deficiencies were noted in accountability over transportation inventory such as inadequate separation of duties. Additionally, controls over budget monitoring for 3 school districts needed improvement. Other findings and recommendations addressed journal entry control deficiencies, school board or committee meeting minutes procedures that did not comply with State law,[14] and failure to submit monthly financial reports to the school board.

Cash Controls. Audit reports for nine school districts included findings addressing the need for enhancements in controls over cash. For five of these school districts, improvements in bank reconciliation procedures were needed. Audit reports for the other four school districts noted that improvements in controls were needed over decentralized collections, such as food service collections or school child care program fee collections.

Capital Assets Management. In addition to the material weakness in internal controls over capital assets previously mentioned for Leon County School District, the audit reports for six school districts addressed deficiencies in accountability for long-term assets, including land, improvements other than buildings, construction in progress (CIP), buildings and fixed equipment, and tangible personal property (TPP). For example, three of these school districts did not complete adequate TPP physical inventory counts or reconcile the counts to the TPP subsidiary records. In addition, accountability for CIP reported amounts for one school district was deficient.

Payroll and Personnel. Audit report findings for 26 school districts addressed the need to improve controls over payroll and personnel. Specifically:

- **Payroll Processing**. For 13 school districts, procedural enhancements were needed to sufficiently and appropriately evidence employee time worked and to document supervisory review and approval of salary payments.
- **Background Screenings**. For 11 school districts, procedures for performing background screenings or rescreenings of employees and contracted vendors with direct student contact were not adequate.
- **Compensation**. For 8 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.[15]

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

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

- **Monitoring of Bus Drivers**. For 4 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 Board of Education (SBE) rules.[16]

Expenditures/Purchasing. For seven school districts, audit report findings addressed the need to improve controls over purchasing practices and operating expenditures. Contract monitoring procedures at four of these school districts needed to be enhanced to ensure that contractual arrangements are evidenced by written contracts, the contracts clearly describe the nature and timing of deliverables, satisfactory receipt of services are documented prior to payments, and the payments are consistent with contract terms and conditions. For two school districts, improvements were needed for purchasing cards controls, such as controls for monitoring credit limits and reviewing and approving charges prior to payment. For two school districts, procurement procedures did not include routine review of required statements of financial interests for consideration in making procurement decisions. One school district's controls over procuring enterprise resource planning software needed improvement as the school district records did not clearly demonstrate that the purchase was made at the lowest price consistent with desired quality.

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

- **Construction Monitoring**. For four school districts, improvements were needed in controls over construction management entity (CME) guaranteed maximum price and subcontractor contract monitoring. The findings and recommendations noted enhancements were needed 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 two school districts. One school district did not follow State law[17] by competitively selecting the design professional and the other school district's CME contract did not contain required provisions such as penalty clauses.
- **Restricted Capital Outlay Resources**. Audit reports for three school districts noted control deficiencies related to restricted capital outlay resources. Records at two school districts did not evidence that the districts used proceeds from sales surtax or ad valorem tax levies for purposes consistent with applicable statutory provisions. Contrary to State law,[18] the school districts expended ad valorem tax levy proceeds totaling $473,861 and $75,449, respectively, for unallowable purposes, such as salaries and benefits for vehicle maintenance, groundskeeping, and telecommunication personnel; gasoline and diesel used by maintenance department; groundskeeping supplies; and Internet and telecommunication services. Additionally, sales surtax proceeds totaling $336,713 were not used by one of the two school districts for the purposes authorized by State law.[19] For another school district, Capital Outlay and Debt Service State proceeds totaling $117,280 were not expended for projects designated on an approved project priority list in accordance with FDOE requirements.[20]

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

[17] Section 287.055, Florida Statutes.

[18] Section 1011.71, Florida Statutes.

[19] Section 212.055(6)(c), Florida Statutes.

[20] FDOE, Office of Educational Facilities, publication (2014) *State Requirements for Educational Facilities*, Section 2.1(5).

Adult General Education Classes. General Appropriations Act proviso language[21] required each school district to report enrollment for adult general education programs identified in State law[22] in accordance with FDOE instructional hours reporting procedures.[23] The audit reports for 13 school districts included findings related to school district misreporting of enrollment data. Since future funding is based, in part, on enrollment data reported to the FDOE, it is important that such data be reported correctly.

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.[24] Specifically:

- **Written Policies and Procedures**. Twenty-three school districts needed to develop and maintain comprehensive, written VIP policies and procedures.
- **Written Parental Notification**. Twenty-two school districts did not timely notify parents regarding student opportunities to participate in a VIP.
- **Provider Contracts**. Eighteen 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 11 school districts were not adequate to ensure that required background screenings for VIP provider employees and contracted personnel were performed.
- **VIP Options**. Procedures at 10 school districts needed enhancement to ensure that the required number of VIP options is offered.
- **Computing Resources and Instructional Materials**. Five 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. Another school district needed improvements in procedures to ensure that VIP students are provided with all necessary instructional materials.
- **Student Eligibility**. Procedures at 4 school districts needed enhancement to ensure that students met the statutory eligibility criteria[25] to participate in a VIP.
- **Student Compulsory Attendance**. For 3 school districts, procedures did not always require documented verification that VIP students complied with compulsory attendance requirements.

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

- **Health Insurance Participant Eligibility and Premium Monitoring**. For three school districts, procedural improvements were needed for verifying eligibility of dependents covered by the school districts' health insurance plans. Three 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.

---

[21] Chapter 2014-51, Laws of Florida, Specific Appropriation 122.

[22] Section 1004.02, Florida Statutes.

[23] FDOE-issued Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

[24] Section 1002.45, Florida Statutes.

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

- **Acquiring Health Insurance Service**. One school district did not use competitive bidding procedures required by State law[26] when procuring a health insurance plan, while another school district contracted for third-party administrative health insurance services without using a competitive selection process.
- **Self-Insurance Program Financial Condition**. One school district needed to develop a formal plan for monitoring the financial condition and for providing premium contributions sufficient to maintain a favorable net position to meet the fiscal demands of the district's self-insurance program.

Direct Support Organizations. Four school districts paid the districts' direct-support organizations (DSOs) for certain expenditures incurred by the DSOs, but not authorized by law, resulting in questioned costs ranging from $5,000 to $637,605. For one of the four school districts, the financial audit of its DSO was not performed in accordance with *Government Auditing Standards* pursuant to the Rules of the Auditor General,[27] and the school district did not approve the DSO's board members as prescribed by State law.[28]

Charter Schools. The audit reports for three school districts addressed control deficiencies over the monitoring of charter schools. The findings addressed the lack of monitoring charter school financial activities and insurance coverages and the need for enhanced procedures related to terminated charter schools, including procedures to ensure the timely return of property and unencumbered funds to the school district.

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, the need for improved controls over social security numbers to ensure compliance with State law,[29] the insufficiency of anti-fraud policies, and the lack of a spending plan for unspent workforce development funds.

Federal Awards Findings

For 19 school districts, audit report findings addressed major Federal program noncompliance and control deficiencies. Material noncompliance and material weaknesses in internal control over compliance related to Federal programs were noted at 8 school districts (Broward, Calhoun, Franklin, Holmes, Jefferson, Liberty, Martin, and Washington), resulting in qualified opinions on those programs. These findings addressed material noncompliance with the Federal compliance requirements of Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions; and related to major programs including the Title I and Special Education programs. Other findings that were not considered material noncompliance addressed various Federal compliance requirements for the Child Nutrition Cluster, Title I, Special Education, Pell Grant, Race-to-the-Top, and other Federal programs.

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

[27] Section 10.720(1)(f), Rules of the Auditor General.

[28] Section 1001.453(3), Florida Statutes.

[29] Section 119.071(5)(a), Florida Statutes.

For the 2014-15 fiscal year, there were 18 findings (including the material noncompliance and material weaknesses findings) at 16 school districts that identified Federal awards questioned costs totaling $25.5 million, and ranging from $686 to $23 million. For the 2013-14 fiscal year, there were 20 findings at 11 school districts that identified Federal awards questioned costs totaling $2.1 million, and ranging from $1,125 to $1 million. Questioned costs include costs of goods or services charged to one or more Federal awards programs that are not allowed under the applicable grant terms, not clearly supporting the Federal awards program's purposes, not documented in the manner prescribed by applicable Federal cost principles or State or school district policies, or not incurred during the grant period. If the applicable grantor disallows questioned costs, a school district may have to repay the costs from non-Federal sources.

OTHER MATTERS OF INTEREST

Repeated Findings From Prior Fiscal Years

State law[30] requires the Auditor General to notify the Legislative Auditing Committee of any audit report prepared for a district school board that indicates the district school board failed to take full corrective action in response to a recommendation that was included in the two preceding financial or operational audit reports. Of the 325 findings included in the 2014-15 fiscal year audit reports reviewed, 67 (21 percent) were also included in previous financial or operational audit reports for at least 2 consecutive fiscal years. This represents a change from the 93 findings or 17 percent similarly noted for the previous fiscal year.

Pursuant to State law, on June 28, 2016, we notified the Legislative Auditing Committee of the 31 district school boards that failed to take full corrective action in response to one or more recommendations included in the two preceding audit reports. This represents a decrease from the 35 district school boards noted the previous year.

School District Budget Transparency

State law[31] 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.

[30] Sections 11.45(7)(j), and 218.39(8), Florida Statutes.

[31] Section 1011.035, Florida Statutes.

Pursuant to State law,[32] on July 7, 2016, we notified the President of the Senate, the Speaker of the House of Representatives, and the Florida Department of Financial Services that three school districts (Bradford, Jackson, and St. Lucie) were reported for noncompliance with the transparency requirements.

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 fiscal year ended June 30, 2015, for the 47 school districts audited by our Office and the 20 school districts audited by other independent CPAs.

Our 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, 2015.

Sherrill F. Norman, CPA
Auditor General

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