STATE OF FLORIDA AUDITOR GENERAL

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# REVIEW OF NONPROFIT, FOR-PROFIT, AND OTHER ENTITIES FINANCIAL REPORTING PACKAGES

For Fiscal Years Ended October 1, 2015, Through September 30, 2016

Pursuant to Section 215.97(12)(f), Florida Statutes




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Auditor General

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# REVIEW OF NONPROFIT, FOR-PROFIT, AND OTHER ENTITIES FINANCIAL REPORTING PACKAGES

## For Fiscal Years Ended October 1, 2015, Through September 30, 2016

## *SUMMARY*


The Florida Single Audit Act (FSAA)[1] requires each nonstate entity that receives State financial assistance and meets the FSAA audit threshold requirements to provide for a Florida single audit.[2] Upon completion of the audit, a financial reporting package is to be submitted to the State awarding agencies and to us within 45 days after delivery of the financial reporting package to the auditee but no later than 9 months after the end of the auditee's fiscal year.[3]

As of June 30, 2017, 265 nonprofit, for-profit, and other entities[4] that met the FSAA audit threshold requirements had submitted financial reporting packages to us for fiscal years ended October 1, 2015, through September 30, 2016. Pursuant to State law,[5] we reviewed a sample of 60 of the 265 financial reporting packages for compliance with applicable reporting requirements and found that the information provided was generally presented in accordance with generally accepted accounting principles, generally accepted government auditing standards (GAGAS), the FSAA, Department of Financial Services (DFS) rules,[6] and Rules of the Auditor General.[7] However, we noted:

**Finding 1:** Contrary to State law, 24 financial reporting packages were not timely submitted to us, including 9 financial reporting packages submitted 7 to 168 days after the 9-month deadline and 15 others submitted 52 to 144 days after delivery of the financial reporting package to the auditee.

**Finding 2:** The 60 sampled financial reporting packages did not always comply with applicable GAGAS, FSAA, DFS rules, and Rules of the Auditor General requirements. For example:

- For 15 of the 58 applicable financial reporting packages, the auditors reported dollar thresholds used to distinguish between Type A and Type B State projects on the schedule of findings and questioned costs that were not correctly calculated using the criteria in DFS rules.[8]
- For 14 of the 21 applicable financial reporting packages, the auditors did not comply with the requirement in State law[9] and the Rules of the Auditor General[10] to include an independent auditor's management letter or, if there were no items related to State financial assistance required to be reported in a management letter, to indicate in the schedule of findings and questioned costs that a management letter was not required.


[1] Section 215.97, Florida Statutes.

[2] Section 215.97(8)(a), Florida Statutes.

[3] Section 10.657(2), Rules of the Auditor General.

[4] For the purpose of our review, "other entities" are local governmental entities other than those enumerated in Section 218.39, Florida Statutes.

[5] Section 215.97(12)(f), Florida Statutes.

[6] DFS Rules, Chapter 69I-5, Florida Administrative Code.

[7] Chapters 10.550 and 10.650, Rules of the Auditor General.

[8] DFS Rule 69I-5.008(2) and (3), Florida Administrative Code.

[9] Section 215.97(2)(e), Florida Statutes.

[10] Section10.656(3)(e), Rules of the Auditor General.

# BACKGROUND

The Florida Single Audit Act (FSAA) requires, for fiscal years ending on or before June 30, 2016, each nonstate entity that expends a total amount of State financial assistance,[11] equal to or in excess of the $500,000 audit threshold[12] to have a Florida single audit conducted in accordance with the FSAA. Pursuant to State law,[13] the FSAA audit threshold is $750,000 for fiscal years ending on or after July 1, 2016.

State law[14] and Department of Financial Services (DFS) rules[15] establish several requirements that independent certified public accountants (CPAs) must follow when conducting Florida single audits of nonprofit, for-profit, and other entities. To assist auditors in complying with these requirements, generally accepted government auditing standards, and applicable laws, rules, and regulations, we developed rules[16] and other guidelines that provide, among other things, procedural guidance for CPAs to follow to ensure compliance with FSAA requirements. These rules and guidelines are made available on our Web site.

State law[17] requires us to perform ongoing reviews of a sample of financial reporting packages submitted pursuant to the FSAA to determine compliance with the reporting requirements of the FSAA and applicable rules. Pursuant to Rules of the Auditor General,[18] each financial reporting package is to be a single document and contain, among other things, the entity's audited financial statements, schedules, and notes thereto; the independent auditor's report on the basic financial statements and report on internal control and compliance; a management letter with the auditor's comments and recommendations; and the auditor's reports and related financial information required pursuant to the FSAA and Rules of the Auditor General including:

- A schedule of expenditures of State financial assistance.
- A report that includes an opinion (or disclaimer of opinion) as to the fair presentation of the schedule of expenditures of State financial assistance.
- A report on compliance, and on internal control over compliance, with major State project requirements.
- A schedule of findings and questioned costs.

[11] Section 215.97(2)(r), Florida Statutes, defines State financial assistance as State resources, not including Federal financial assistance and State matching on Federal programs, provided to a nonstate entity to carry out a State project. State financial assistance may be provided directly by State awarding agencies or indirectly by nonstate entities. State financial assistance does not include procurement contracts used to buy goods or services from vendors and contracts to operate State-owned and contractor-operated facilities.

[12] Section 215.97(2)(a), Florida Statutes (2015).

[13] Chapter 2016-132, Laws of Florida.

[14] Section 215.97(10) and (11), Florida Statutes.

[15] DFS Rules, Chapter 69I-5, Florida Administrative Code.

[16] Chapters 10.550 and 10.650, Rules of the Auditor General. Chapter 10.550, Rules of the Auditor General, prescribes FSAA auditing and reporting standards for local governmental entities, including those that meet the definition in Section 215.97(2)(k), Florida Statutes, but are not local governmental entities as enumerated in Section 218.39, Florida Statutes. Such entities are referred to as "other entities" in this report. Chapter 10.650, Rules of the Auditor General, prescribes FSAA auditing and reporting standards for nonprofit and for-profit organizations.

[17] Section 215.97(12)(f), Florida Statutes.

[18] Sections 10.557(3) and 10.656(3), Rules of the Auditor General.

- A summary schedule of prior audit findings, if applicable.
- A corrective action plan.

As of June 30, 2017, 265 nonprofit, for-profit, and other entities that met the FSAA audit threshold had submitted financial reporting packages to us for fiscal years ended October 1, 2015, through September 30, 2016.

# *FINDINGS AND RECOMMENDATIONS*

## Finding 1: Financial Reporting Package Submissions

Rules of the Auditor General[19] require that financial reporting packages required to be submitted pursuant to the FSAA[20] be submitted to the State awarding agencies and us within 45 days after delivery of the financial reporting package to the auditee but no later than 9 months after the end of the auditee's fiscal year. The rules also require the auditee to indicate in correspondence accompanying the financial reporting package the date the financial reporting package was delivered to the auditee.

Of the 265 financial reporting packages we received as of June 30, 2017, 24 were not timely submitted. Specifically:

- 9 entities, listed on ***EXHIBIT A*** to this report, submitted financial reporting packages to us 7 to 168 days after the 9-month deadline.
- 15 other entities, listed on ***EXHIBIT B*** to this report, submitted financial reporting packages to us 52 to 144 days after the delivery of the financial reporting package to the auditee.

Timely audits are necessary to ensure that management and those charged with governance are promptly informed of control deficiencies and noncompliance with the FSAA. Additionally, timely submitted financial reporting packages provide for timely review by the applicable State entities with oversight responsibilities.

**Recommendation: Audited entities should ensure that Florida single audits are timely conducted and that financial reporting packages are timely submitted in accordance with State law.**

## Finding 2: Financial Reporting Package Completeness

To determine the extent to which the submitted financial reporting packages complied, for selected significant matters, with generally accepted accounting principles (GAAP), generally accepted government auditing standards (GAGAS), the FSAA, DFS rules,[21] and Rules of the Auditor General,[22] we selected a sample of 60 of the 265 financial reporting packages we received as of June 30, 2017, and performed completeness reviews.

[19] Sections 10.558(3) and 10.657(2), Rules of the Auditor General.

[20] Section 215.97(8)(g), Florida Statutes.

[21] DFS Rules, Chapter 69I-5, Florida Administrative Code.

[22] Chapters 10.550 and 10.650, Rules of the Auditor General.

We found that most of the 60 financial reporting packages included audited financial statements, schedules, and notes thereto; the required independent auditor's reports on the basic financial statements and on internal control and compliance; and other information required by GAAP, GAGAS, the FSAA, DFS rules, and Rules of the Auditor General. However, we also noted that:

- Auditors, for 15 of the 58 applicable financial reporting packages, reported dollar thresholds used to distinguish between Type A and Type B State projects on the schedule of findings and questioned costs that were not correctly calculated using the criteria in DFS rules.[23] Given that the DFS risk-assessment process requires auditors to consider the threshold in determining major State projects and selecting which State projects to audit, threshold miscalculations could cause auditors to overlook high-risk State projects, reducing the audit's effectiveness and accountability over the projects.
- Auditors, for 14 of the 21 applicable financial reporting packages, did not comply with the requirement in State law[24] and the Rules of the Auditor General[25] to include an independent auditor's management letter or, if there were no items related to State financial assistance (SFA) required to be reported in a management letter, to indicate in the schedule of findings and questioned costs that a management letter was not required. Management letters are useful to communicate, of record, to those charged with governance audit findings, such as noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred and to make recommendations to remedy the findings.
- Entities, for 7 of the 60 applicable financial reporting packages, did not comply with the DFS rule requirement[26] to include in the schedule of expenditures of State financial assistance (SESFA) notes describing the significant accounting policies used in preparing the SESFA. Such notes provide useful information about the accounting principles followed, the methods used to apply those principles, and how such methods affected the determination of State project expenditure amounts on the SESFA.
- Entities, for 4 of the 8 applicable financial reporting packages, did not comply with the Rules of the Auditor General requirement[27] to include a summary schedule of prior audit findings or to indicate that a schedule was not required. The summary schedule of prior audit findings helps communicate, of record, the status of prior uncorrected audit findings that continue to be valid and warrant further entity action.
- Entities, for 3 of the 16 applicable financial reporting packages, neglected to subtotal expenditures on the SESFA by Catalog of State Financial Assistance number, as required by DFS rules.[28] Such subtotals assist SESFA users in identifying expenditure amounts for projects with similar objectives.
- Auditors, for 3 of the 58 applicable financial reporting packages, did not comply with the requirement in GAGAS[29] and the Rules of the Auditor General[30] to include a statement in the auditor's report that the audit was made in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* (*GAS*) issued by the Comptroller General of the United States. Without such a statement, the users of the report lack assurance that the audit

[23] DFS Rule 69I-5.008(2) and (3), Florida Administrative Code.

[24] Section 215.97(2)(e), Florida Statutes.

[25] Section10.656(3)(e), Rules of the Auditor General.

[26] DFS Rule 69I-5.003(1)(f), Florida Administrative Code.

[27] Sections 10.557(3)(e)5., and 10.656(3)(d)5., Rules of the Auditor General.

[28] DFS Rule 69I-5.003(1)(c), Florida Administrative Code.

[29] *Government Auditing Standards* paragraph 4.18.

[30] Sections 10.551(4) and 10.557(3)(b), and Sections 10.651(4) and 10.656(3)(b), Rules of the Auditor General.

was performed in accordance with *GAS*, which require, among other things, auditors to report on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements; maintain additional continuing education requirements; and obtain a peer review of their system of quality control at least once every 3 years.

- Auditors, for 3 of the 58 applicable financial reporting packages, did not demonstrate their compliance with the DFS rule requirement[31] to audit the required number of State projects. Specifically, the major State project total expenditures reported on the schedule of findings and questioned costs included in these 3 financial reporting packages did not equal at least 50 percent of the total expenditures reported on the SESFA. Without information evidencing that the required number of State projects were audited, the users of the FSAA-required reports and related information cannot be assured that the number of State projects audited was sufficient to comply with the DFS requirement.
- Entities, for 3 of the 60 applicable financial reporting packages, did not comply, for one or more of the State projects listed on the SESFA, with the DFS rule requirement[32] to identify the contract or grant numbers on the SESFA. Absent such identification, the ability of SESFA users to correlate projects and related expenditures to the applicable State awarding agencies may be limited.

***EXHIBIT C*** to this report provides a summary of the reporting deficiencies and noncompliance that we noted.

**Recommendation: Audited entities and their auditors should ensure that financial reporting packages contain all the required information presented in accordance with applicable laws and rules.**

## *OBJECTIVES, SCOPE, AND METHODOLOGY*

Pursuant to Section 11.45, Florida Statutes, the Auditor General conducts audits of governmental entities and performs other engagements to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The objectives of this project were to determine whether the financial reporting packages submitted to us for nonprofits, for-profits, and other entities that met the Florida Single Audit Act (FSAA) threshold:

- Complied with generally accepted accounting principles, generally accepted governmental auditing standards (GAGAS), the FSAA,[33] Department of Financial Services (DFS) rules,[34] and Rules of the Auditor General.[35]
- Were prepared by independent certified public accountants (CPAs) properly licensed by the Florida Board of Accountancy.

The scope of this project included a review of a sample of 60 of the 265 financial reporting packages submitted to us as of June 30, 2017, for nonprofits, for-profits, and other entities that met the FSAA audit threshold for fiscal years ended October 1, 2015, through September 30, 2016. For the purpose of our

[31] DFS Rule 69I-5.008(6)(c), Florida Administrative Code.

[32] DFS Rule 69I-5.003(1)(a), Florida Administrative Code.

[33] Section 215.97, Florida Statutes.

[34] DFS rules, Chapter 69I-5, Florida Administrative Code.

[35] Chapters 10.550 and 10.650, Rules of the Auditor General.

review, “other entities” are local governmental entities other than those enumerated in Section 218.39, Florida Statutes. The results of our review of local governmental entity compliance with FSAA reporting requirements for those entities enumerated in Section 218.39, Florida Statutes, will be the subject of a separate report.

Our review of the financial reporting packages included in the scope of this project was conducted in accordance with applicable GAGAS. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Our review was necessarily limited to the contents of the financial reporting packages submitted to us and did not extend to an examination of the CPAs’ working papers or a determination of whether the auditors followed all applicable GAGAS in the actual conduct of the audits. Because our review was limited to the content of the financial reporting packages submitted to us, our review cannot be used as the basis for determining the extent of the entities’ compliance with applicable laws, rules, contractual requirements, or bond covenants. Likewise, our review would not disclose whether the auditor reported all instances of noncompliance or reportable internal control deficiencies noted during the audit, or whether certain required financial disclosures were completely omitted.

## AUTHORITY

Section 215.97(12)(f), Florida Statutes, requires the Auditor General to perform ongoing reviews of a sample of financial reporting packages filed pursuant to the Florida Single Audit Act to determine compliance with the reporting requirements of the Act and applicable Department of Financial Services rules and Rules of the Auditor General. Pursuant to the provisions of State law, I have directed that this report be prepared to present the results of our review of nonprofit, for-profit, and other entity financial reporting packages for fiscal years ended October 1, 2015, through September 30, 2016.



Sherrill F. Norman, CPA
Auditor General

# EXHIBIT A

## NONPROFIT, FOR-PROFIT, AND OTHER ENTITIES FINANCIAL REPORTING PACKAGES SUBMITTED AFTER 9-MONTH DEADLINE

### FOR FISCAL YEARS ENDED OCTOBER 1, 2015, THROUGH SEPTEMBER 30, 2016

| | Entity | Package Received | Number of Days Late |
|---|---|---|---|
| 1 | University Energy Park, LLC | 03/17/2017 | 168 |
| 2 | The Institute for Child and Family Health, Inc. | 05/04/2017 | 35 |
| 3 | Everglades Area Health Education Center, Inc. | 05/02/2017 | 33 |
| 4 | Choose Life, Inc. | 04/27/2017 | 28 |
| 5 | Hillsborough County School Readiness Coalition, Inc. | 04/17/2017 | 18 |
| 6 | Phoenix Houses of Florida | 04/17/2017 | 18 |
| 7 | BayCare Health System, Inc. and Affiliates | 10/11/2016 | 11 |
| 8 | Florida Network Children's Advocacy Centers | 04/06/2017 | 7 |
| 9 | Sarasota Family YMCA | 04/06/2017 | 7 |

# EXHIBIT B

## NONPROFIT, FOR-PROFIT, AND OTHER ENTITIES FINANCIAL REPORTING PACKAGES SUBMITTED MORE THAN 45 DAYS AFTER FINANCIAL REPORTING PACKAGE DELIVERED TO THE AUDITEE

### FOR FISCAL YEARS ENDED OCTOBER 1, 2015, THROUGH SEPTEMBER 30, 2016

| | | Number of Days Package | |
|---|---|---|---|
| | Entity | Submitted After Delivery to Auditee | Submitted Late |
| 1 | Embry-Riddle Aeronautical University, Inc. | 144 | 99 |
| 2 | Eckerd College | 129 | 84 |
| 3 | CareerSource Florida, Inc. | 123 | 78 |
| 4 | Northeast Florida Area Health Education Center, Inc. | 120 | 75 |
| 5 | Florida Institute of Technology, Inc. | 102 | 57 |
| 6 | All Children's Hospital | 93 | 48 |
| 7 | Mount Sinai Medical Center of Florida, Inc. | 75 | 30 |
| 8 | Florida East Coast Railway LLC | 72 | 27 |
| 9 | Step Up for Students, Inc. | 68 | 23 |
| 10 | Mid-Florida Area Agency on Aging, Inc. | 67 | 22 |
| 11 | Navy Federal Credit Union | 59 | 14 |
| 12 | Senior Connection Center, Inc. | 59 | 14 |
| 13 | Area Agency on Aging for North Florida, Inc. | 57 | 12 |
| 14 | Crosswinds Youth Services, Inc. | 54 | 9 |
| 15 | Florida Association of Free and Charitable Clinics, Inc. | 52 | 7 |

# EXHIBIT C

## SUMMARY OF DEFICIENCIES AND NONCOMPLIANCE NOTED IN REVIEWS OF NONPROFIT, FOR-PROFIT, AND OTHER ENTITIES FINANCIAL REPORTING PACKAGES

### FOR FISCAL YEARS ENDED OCTOBER 1, 2015, THROUGH SEPTEMBER 30, 2016

| Description of Deficiencies or Noncompliance | Number of Packages to Which Criteria Applied | Number of Packages with Deficiencies or Noncompliance | Percent |
|---|---|---|---|
| **Auditor's Report on the Financial Statements**<br>The auditors did not comply with the requirement in generally accepted government auditing standards and Rules of the Auditor General to include a statement in the auditor's report on the financial statements that the audit was made in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. | 58 | 3 | 5 |
| **Auditor's Management Letter**<br>The auditors did not comply with the requirement in State law and Rules of the Auditor General to include an independent auditor's management letter or to indicate in the schedule of findings and questioned costs that a management letter was not required. | 21 | 14 | 67 |
| **Schedule of Expenditures of State Financial Assistance**<br>The entities did not comply with the DFS rule requirement to include notes describing the significant accounting policies used in preparing the schedule of expenditures of State financial assistance (SESFA). | 60 | 7 | 12 |
| The entities did not comply with the DFS rule requirement to disclose State financial assistance (SFA) expenditure subtotals by Catalog of State Financial Assistance number on the SESFA. | 16 | 3 | 19 |
| The entities did not comply with the DFS rule requirement to identify the contract or grant numbers by State project on the SESFA. | 60 | 3 | 5 |
| **Schedule of Findings and Questioned Costs**<br>The auditors reported dollar thresholds used to distinguish between Type A and Type B State projects on the schedule of findings and questioned costs that were not correctly calculated using the criteria in DFS rules. | 58 | 15 | 26 |
| The auditors did not demonstrate that they complied with the DFS rule requirement to audit the required number of State projects as the major State project total expenditures on the schedule of findings and questioned costs did not equal at least 50 percent of the total expenditures on the SESFA. | 58 | 3 | 5 |
| **Summary Schedule of Prior Audit Findings**<br>The entities did not comply with the Rules of the Auditor General requirement to include a summary schedule of prior audit findings or indicate that a schedule was not required. | 8 | 4 | 50 |