

**REPORT ON SIGNIFICANT FINANCIAL
TRENDS AND FINDINGS
IDENTIFIED IN LOCAL GOVERNMENTAL
ENTITY 2008-09 FISCAL YEAR
AUDIT REPORTS
AND
ANNUAL FINANCIAL REPORTS**



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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY 2008-09 FISCAL YEAR AUDIT REPORTS AND ANNUAL FINANCIAL REPORTS

SUMMARY

This report provides a summary of significant financial trends and findings identified in audit reports prepared by independent certified public accountants and submitted to us for 66 counties (including 388 county agencies), 389 municipalities, and 781 special districts, and annual financial reports for 7 municipalities and 226 special districts submitted to the Florida Department of Financial Services, for the 2008-09 fiscal year.

Significant Financial Trends

- Of the local governmental entities that submitted audit reports to us as of February 28, 2011, 77 were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes¹, that could result in these entities being declared to be in a state of financial emergency. In addition, our review of 233 annual financial reports for unaudited local governmental entities disclosed that 18 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes. The 95 entities meeting one or more of the specified conditions represents a three percent increase compared to the prior fiscal year.
- Many local governmental entities are experiencing deteriorating financial conditions. A total of 92 local governmental entities were reported as experiencing deteriorating financial conditions, an increase of 30 percent compared to the prior fiscal year. This increase is primarily attributable to special districts. In addition, our application of financial indicators disclosed, for selected entities, certain financial trends that may be indicative of deteriorating financial conditions, including high levels of ad valorem millage rates for lesser-populated counties and higher-populated municipalities; insufficient levels of unreserved fund equity; declining excess revenues over expenditures in governmental funds or decreasing operating incomes (or increasing operating losses) in proprietary funds; low or declining levels of cash and investments, as compared to current liabilities; and increasing long-term debt in governmental activities.
- Although taxable property values and taxes levied have increased in total since 2000, there has been a significant decrease over the past three years. Since 2006, taxable property values have decreased by approximately \$119 billion (7 percent) and \$210 billion (25 percent) for counties and municipalities, respectively. Taxes levied decreased by approximately \$1.3 billion (15 percent) and \$1.1 billion (27 percent) for counties and municipalities, respectively, over the same period. Contributing factors to this decline in taxes levied include lower taxable property values, reductions in millage rates, and 2007 and 2008 legislation that limited the ad valorem revenue-raising capabilities of local governmental entities.

Significant Findings

- Certain types of findings are frequently included in county, municipality, and special district audit reports. Forty-one percent of the findings were identified as significant deficiencies and 22 percent of those were also identified as material weaknesses.
- For many of the audit reports, the findings did not include one or more of the elements required by Chapter 10.550, Rules of the Auditor General.
- Of the 2,752 findings included in 2008-09 fiscal year audit reports, 1,353 (49 percent) were findings that had also been included in audit reports for the prior fiscal year. During the 2011 legislative

¹ All statutory references are to the 2009 Florida Statutes.

session, the Florida Legislature enacted legislation to encourage local governmental entities to take timely and appropriate action to address audit findings.

BACKGROUND

- Section 11.45(2)(h), Florida Statutes, established as one of the goals of the local government financial reporting system the timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by the Legislature and other appropriate officials to improve the financial condition of local governments. The Legislature has assigned local governmental entity independent auditors and us responsibilities related to monitoring financial condition of local governments as follows: Section 218.39(1), Florida Statutes, provides for local governmental entity audits to be performed by CPAs. The scope of these audits includes an examination of the financial statements, the issuance of a report on internal control and compliance in accordance with generally accepted government auditing standards, and, if applicable, the issuance of a report on internal control and compliance relative to State financial assistance in accordance with the *Florida Single Audit Act* and relative to Federal awards in accordance with United States Office of Management and Budget *Circular A-133*. Section 218.39(5), Florida Statutes, requires that independent auditors notify local governmental entities of deteriorating financial conditions that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Chapter 10.550, Rules of the Auditor General, requires that the independent auditor's management letter include recommendations addressing deteriorating financial conditions disclosed by the audit.
- Chapter 218, Part V, Florida Statutes, is entitled the "Local Governmental Entity, Charter School, Charter Technical Career Center, and District School Board Financial Emergencies Act." Section 218.503(2), Florida Statutes, requires a local governmental entity to notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1), Florida Statutes, has occurred or will occur if action is not taken to assist the entity. The local governmental entity's independent auditor is required by Chapter 10.550, Rules of the Auditor General, to state in the management letter whether or not the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes.
- Section 11.45(7)(b), Florida Statutes, provides that we review, in consultation with the Florida State Board of Accountancy, all local governmental entity audit reports prepared by independent certified public accountants (CPAs) and submitted to us. If an entity is reported as meeting one or more of the conditions, we also are required to notify the Governor and the Legislative Auditing Committee. The Governor is responsible for determining whether the local governmental entity needs State assistance to resolve the condition(s) and, if so, the entity is considered to be in a state of financial emergency.

Section 11.45(7)(f), Florida Statutes, requires that we annually compile and transmit to the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee a summary of significant findings and financial trends identified in local governmental entity audit reports and other information, such as annual financial reports for entities that are not required to provide for an audit.

SIGNIFICANT FINANCIAL TRENDS

Notifications to Legislative Auditing Committee and the Governor

Section 218.503(1), Florida Statutes, requires that local governmental entities be subject to review and oversight by the Governor if one or more specified conditions occur. These conditions include failure to pay short-term loans or make bond debt service payments when due as a result of a lack of funds, failure to pay wages and salaries to employees due to a lack of funds, and an unreserved or total fund balance or unrestricted or total net assets deficit for which sufficient resources are not available to cover the deficit. Section 11.45(7)(e), Florida Statutes, requires us to

notify the Legislative Auditing Committee and the Governor of any audit report reviewed that contains a statement that the local governmental entity met one or more of the specified conditions.

Our review of the 2008-09 fiscal year local governmental entity audit reports prepared by independent certified public accountants and received by us as of February 28, 2011, disclosed that a total of 77 entities (1 county, 11 municipalities, and 65 special districts) were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes. Our review of 233 annual financial reports for unaudited local governmental entities disclosed that 18 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes. The 95 entities meeting one or more of the specified conditions as compared to the 92² noted for the prior fiscal year represents a three percent increase.

As required by Section 10.554(1)(i)7.c.2., Rules of the Auditor General, if the auditor reported that the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes, the auditor was required to specify whether such condition was a result of deteriorating financial conditions. For 28 of the 77 entities reported as meeting one or more of the conditions as of September 30, 2009, the auditors indicated that the condition resulted from deteriorating financial conditions.

In addition to those entities that were reported as having met a condition in Section 218.503(1), Florida Statutes, as of September 30, 2009, we also reported to the Legislative Auditing Committee and the Governor a total of 25 special districts for which either the notes to the financial statements or the auditors indicated a condition in Section 218.503(1), Florida Statutes, was met subsequent to September 30, 2009.

Deteriorating Financial Conditions

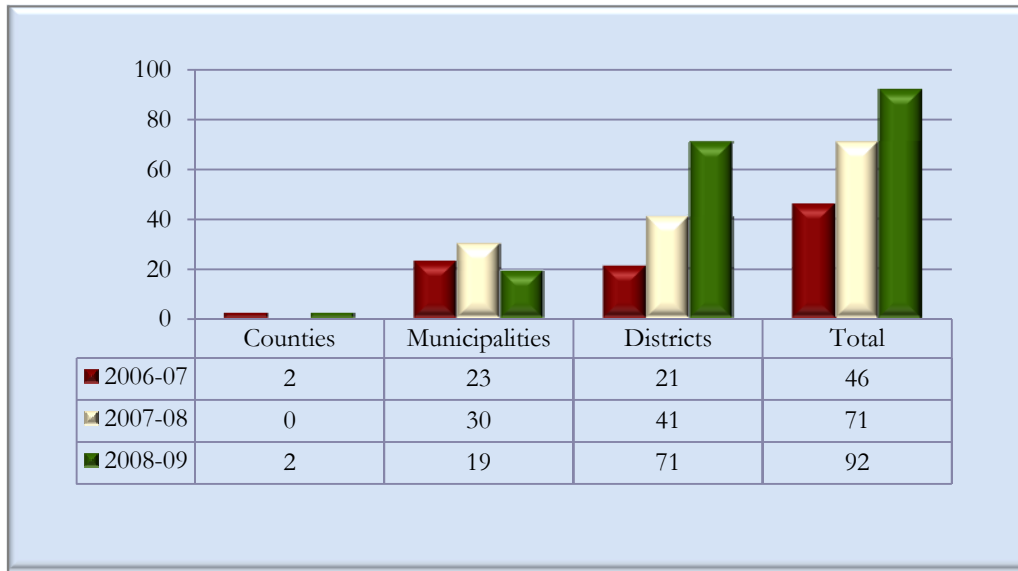
Section 218.39(5), Florida Statutes, requires auditors to notify local governmental entity officials or their designees when deteriorating financial conditions exist that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Section 10.556(7), Rules of the Auditor General, requires auditors to use financial condition assessment procedures, and Section 10.554(1)(i)7.c., Rules of the Auditor General, requires auditors to report any deteriorating financial conditions noted as a result of the financial condition assessment. For example, a community development district lacking developer funding for debt service assessments for several years, if not corrected, would result in failure to make bond debt service payments, a condition specified in Section 218.503(1), Florida Statutes.

Auditors reported a total of 92 entities (2 counties, 19 municipalities and 71 special districts) as experiencing deteriorating financial conditions as of September 30, 2009, an increase of 21 entities, or 30 percent, as compared to the prior fiscal year, as shown in Table 1.³ The increase is primarily attributable to special districts.

² The number of entities reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, for the 2007-08 fiscal year differs from the number reported in report No. 2010-113 because additional reports for that fiscal year were received subsequent to the release of report No. 2010-113.

³ The number of entities reported in Table 1 as experiencing financial condition problems for the 2006-07 and 2007-08 fiscal years differs from the number reported in report No. 2010-113 because additional reports for those fiscal years were received subsequent to the release of report No. 2010-113.

**Table 1
Deteriorating Financial Conditions**



Source: Audit reports

Other Financial Trends

Our application of financial indicators (see Exhibit A) to financial and other information obtained for the counties, municipalities, and special districts evaluated for the 1999-2000 through 2008-09 fiscal years disclosed certain significant financial trends as discussed below. The financial trends presented below are based on a desk review of audit reports and annual financial reports and do not represent individual financial condition assessments of particular entities. Such assessments are the responsibility of local governmental entities and their independent auditors and require information that can only be obtained through examination of entity records and inquiry of entity management.

Millage Rates, Taxable Property Values, and Taxes Levied

In 2007 and 2008, legislation was enacted and, as applicable, approved by the voters, that has limited the ad valorem revenue-raising capability of local governmental entities. These changes include increases in homestead exemptions, portability provisions, caps on the increase in value for non-homestead properties, and required millage rate reductions/limitations. Additionally, market values of real property have declined as a result of the housing crisis. From January 2008 to January 2009, taxable property values decreased by 11 percent for both counties and municipalities; average millage rates increased 3 percent for counties and 6 percent for municipalities; and taxes levied decreased by 8 and 7 percent for counties and municipalities, respectively.

For 2009, the average ad valorem millage rate was 6.4761 for counties and 4.2082 for municipalities. The average millage rate has decreased 15 percent for counties and 9 percent for municipalities since 2000.

As noted in prior fiscal years, we found that, on average, lesser-populated counties and higher-populated municipalities generally had higher 2009 millage rates than higher-populated counties and lower-populated municipalities, as shown in Table 2.

Table 2

Counties		Municipalities	
Population Range	Average 2009 Millage	Population Range	Average 2009 Millage
< 25,000	8.5331	< 1,000	2.9035
25,000 – 74,999	7.3901	1,000 – 2,999	4.4099
75,000 – 224,999	5.0577	3,000 – 9,999	4.2264
225,000 – 674,999	5.5403	10,000 – 24,999	4.3939
675,000 +	4.8535	25,000 – 99,999	4.6769
		100,000 +	5.8319

Source: Florida Department of Revenue, Property Valuations and Tax Data Books

A summary of average millage rates, total taxable property values, and total taxes levied by counties and municipalities for the last 10 years are shown in Tables 3 and 4.

Table 3

Counties			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
2000	7.5804	\$727,582,705,810	\$4,500,558,870
2001	7.5674	\$802,204,410,529	\$4,920,934,478
2002	7.5942	\$882,238,222,735	\$5,376,679,580
2003	7.5650	\$981,794,280,611	\$5,957,111,802
2004	7.4974	\$1,105,948,754,799	\$6,570,744,816
2005	7.3751	\$1,309,754,176,278	\$7,586,284,807
2006	6.9451	\$1,635,033,562,670	\$8,438,433,140
2007	6.1970	\$1,805,873,056,801	\$8,111,079,346
2008	6.2996	\$1,710,744,756,325	\$7,791,725,395
2009	6.4761	\$1,516,182,700,604	\$7,160,149,619

Table 4

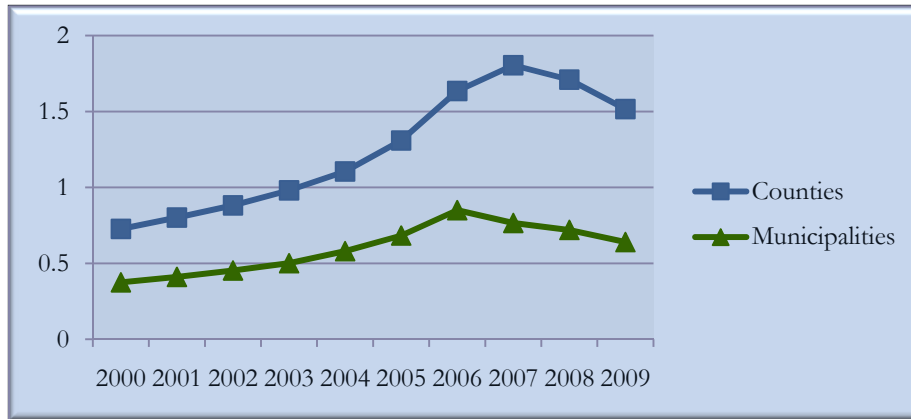
Municipalities			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
2000	4.6290	\$375,536,705,966	\$1,871,263,923
2001	4.3295	\$411,130,619,849	\$2,002,100,239
2002	4.4184	\$453,402,682,823	\$2,207,838,534
2003	4.3834	\$501,884,576,162	\$2,438,905,213
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,319,146,683	\$3,272,616,315
2006	4.2689	\$850,654,287,997	\$3,948,085,738
2007	4.8943	\$766,269,119,373	\$3,005,327,370
2008	3.9841	\$720,590,444,269	\$3,073,819,779
2009	4.2082	\$640,706,571,272	\$2,865,244,716

Note (1): Amounts reported may not agree to our prior reports due to updates to information included in the Property Valuations and Tax Data Books by the Florida Department of Revenue.

Source: Florida Department of Revenue, Property Valuations and Tax Data Books

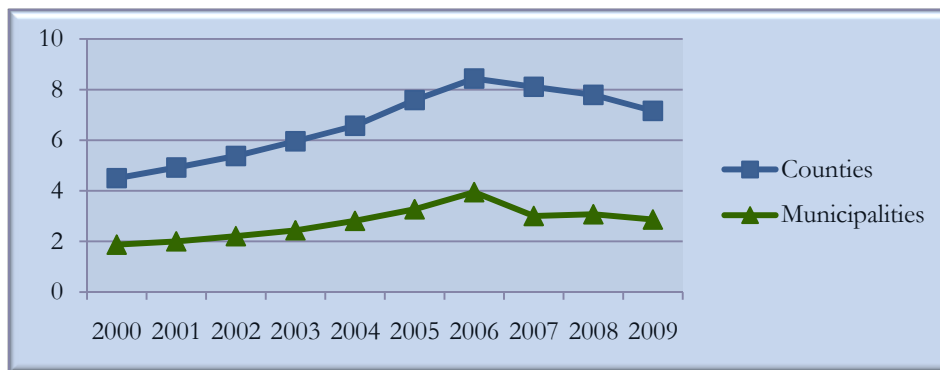
Average millage rates for counties were generally decreasing since 2000; however, they have increased in each of the past two years. Average millage rates for municipalities have been more erratic over the 10-year period. As shown in Tables 5 and 6, although there is an overall increase in the taxable property values and taxes levied since 2000, there has been a significant decline in taxable property values and taxes levied since 2006. Taxable property values have declined by approximately \$119 billion (7 percent) and \$210 billion (25 percent) for counties and municipalities, respectively, over the past three years. Taxes levied have decreased by approximately \$1.3 billion (15 percent) and \$1.1 billion (27 percent) for counties and municipalities, respectively, over the same period.

Table 5
Taxable Property Values
(In trillions)



Source: Florida Department of Revenue, Property Valuations and Tax Data Books

Table 6
Taxes Levied
(In billions)



Source: Florida Department of Revenue, Property Valuations and Tax Data Books

Fund Equity and Results of Operations

Although the number of reports reviewed increased from 904 to 1,467 (62 percent) from the 1999-2000 to the 2008-09, fiscal year, as shown in Table 7 the number of entities reporting net deficit unreserved/unrestricted fund equities increased by a larger percentage (70 percent) over the same period. Although local governments are not statutorily required to maintain a specified level of unreserved/unrestricted fund equity, the ability of these entities to maintain adequate service levels and fund capital acquisitions may be diminished if sufficient fund equity is not maintained.

Although many entities use excess revenues in governmental funds to support proprietary fund operations, or vice versa, we noted that 764 entities (or 52 percent of reports reviewed) experienced net losses when both governmental and proprietary funds were taken into account for the 2008-09 fiscal year, as compared to 387 entities (or 43 percent of reports reviewed) for the 1999-2000 fiscal year. The most significant changes were reported by counties and municipalities, where the percentage of entities that experienced net losses grew from 14 percent to 73 percent for counties and from 43 percent to 54 percent for municipalities when comparing the 1999-2000 to the 2008-09 fiscal year. Since the percentage of counties and municipalities reporting net deficit unreserved/unrestricted fund equities increased only slightly for counties and decreased for municipalities over the same period, the increases in net losses may indicate that counties and municipalities have been using excess reserves from prior years to fund operations.

Additionally, of the entities that experienced net losses, 70 (or 5 percent of reports reviewed) also reported net deficit unreserved/unrestricted fund equities as of September 30, 2009, approximately the same percentage as for the fiscal year ended September 30, 2000. Continued excess expenditures over revenues and deficit unreserved/unrestricted fund equities may cause such entities to not have sufficient funds to sustain current services without having to borrow funds from outside sources, and also results in those entities having less resources available for emergencies and unforeseen situations.

Reported unreserved/unrestricted fund equity, revenue, and expenditure information, by entity, is available on our Web site at www.myflorida.com/audgen (click on Local Government/Nonprofit/For-Profit, Local Governmental Entity Financial Condition Assessment Procedures, INSTRUCTIONS-EXCEL).

Table 7⁴

Condition	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2000	2004	2009	2000	2004	2009	2000	2004	2009	2000	2004	2009
Number of reports reviewed	66	66	66	382	396	396	456	633	1,005	904	1,095	1,467
Reported net deficit total unreserved/unrestricted fund equity.	0	0	1	20	4	11	30	46	73	50	50	85
Reported no unreserved/unrestricted fund equity.	0	0	0	0	0	2	27	63	152	27	63	154
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	28	53	56	251	293	296	225	323	516	504	669	868
Experienced net losses when both governmental and proprietary funds were taken into account.	9	42	48	164	195	213	214	317	503	387	554	764
Experienced net losses and reported net deficit unreserved/unrestricted fund equity.	0	0	1	16	3	7	20	30	62	36	33	70

Source: Audit reports and annual financial reports

⁴ Table 7 includes 2 municipalities and 130 special districts that reported no unreserved/unrestricted fund equity, and 18 special districts that reported deficit unreserved/unrestricted fund equity, on their 2008-09 fiscal year annual financial reports. Table 7 also includes 86 special districts and 5 municipalities that reported losses in either governmental or proprietary funds, and reported net losses when both governmental and proprietary funds were considered, on their 2008-09 fiscal year annual financial reports.

Other Trends

A total of 108 audited entities (2 counties, 26 municipalities, and 80 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2009, as compared to 87 as of September 30, 2004. Of these, 54 also experienced declining levels of cash and investments as compared to current liabilities over the past three to five years in governmental funds, proprietary funds, or both, as compared to 44 for the 2003-04 fiscal year. In addition, 1 municipality and 104 special districts reporting via annual financial reports, reported cash and investments in amounts not sufficient to cover current liabilities as of September 30, 2009. Declining levels of cash and investments as compared to current liabilities may indicate that the local governmental entity has overextended itself or may be having difficulty raising the cash needed to meet its current needs.

Long-term debt reported for governmental activities totaled \$31.6 billion as of September 30, 2009, an increase of \$10.5 billion, or 50 percent, compared to \$21.1 billion as of September 30, 2004, for entities from which we received audit reports for those fiscal years.

Increasing long-term debt, especially when combined with the economic downturn discussed below, may result in the long-term debt exceeding a local government's resources for paying the debt, and the local governmental entity may, therefore, have difficulty obtaining additional capital funds, have to pay a higher interest rate on debt, and have difficulty repaying the debt.

Economic Downturn

Weakness in the State of Florida's economy continued during the 2008-09 fiscal year resulting in decreased taxes and other revenues. Further economic weakness was experienced in the 2009-10 fiscal year and into the 2010-11 fiscal year, resulting in revenue sharing reductions to local governmental entities. Under these conditions, effective financial monitoring and timely and appropriate adjustments to operations are critical to local governmental entities to ensure that the costs of operations remain within available financial resources.

SIGNIFICANT FINDINGS

Modified Audit Opinions

Audit findings of the greatest significance include those that have a material impact on the fair presentation of the financial statements and may result in a modification of the independent auditor's opinion on the financial statements. Modified opinions include: (1) qualified opinions, whereby the auditor states that except for the effects of the matter(s) to which the qualification relates, the financial statements are fairly presented; (2) adverse opinions, whereby the auditor states that the financial statements are not fairly presented; and (3) disclaimers of opinion, whereby the auditor does not express an opinion. As shown in Table 8, 13 of the 1,558 audit reports reviewed (including 388 county agencies, 389 municipalities, and 781 special districts) for the 2008-09 fiscal year contained modified opinions.

Table 8

Entity Name	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Baker County Board of County Commissioners	X		
Dixie County Board of County Commissioners	X		
Holmes County Board of County Commissioners	X		
Washington County Board of County Commissioners	X		
Town of Altha	X		
Town of Lake Hamilton			X
Town of Otter Creek	X		
City of Riviera Beach	X	X	
City of South Bay		X	
City of Vernon		X	
Escambia County Law Library	X		
Leon County Research and Development Authority			X
St. Augustine Port, Waterway and Beach District	X		

Source: Audit reports

The qualified opinions were issued for inadequate documentation to support capital assets, failure to record a liability for other postemployment benefits, inadequate segregation of duties, improper valuation of real property, and exclusion of a pension trust fund from the entity’s financial statements. The adverse opinions were issued for inadequate documentation to support capital assets, and the exclusion of a pension trust fund from the entity’s financial statements. The disclaimers of opinion were issued because financial and other information provided to the auditor was too limited to warrant the expression of an opinion, and a significant number of apparent unauthorized disbursements were made from an operating account. The overall percentage of 2008-09 fiscal year reports that included modified opinions remained the same as the prior fiscal year.

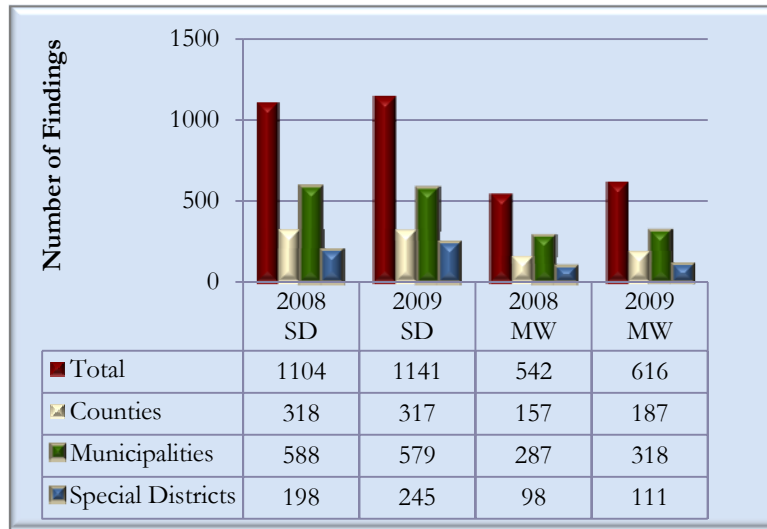
Classification of Audit Findings

Auditing standards require that auditors report significant control deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the local governmental entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected.

Of the 1,558 audit reports reviewed, 434 (28 percent) reported a significant deficiency(ies), of which 274 (18 percent) included a material weakness(es). A summary, by type of local governmental entity and category of finding, of reports including findings classified by auditors as significant deficiencies and material weaknesses is included as Exhibit B.

Of the 2,752 findings included in the audit reports reviewed, 1,141 (41 percent) were considered significant deficiencies, of which 616 (22 percent) were considered material weaknesses. In addition, as shown in Table 9, the number of significant deficiencies and material weaknesses increased by 37 (from 1,104 to 1,141, or 3 percent) and 74 (from 542 to 616, or 14 percent), respectively, compared to the prior fiscal year.

Table 9
Number of Findings Classified as Significant Deficiencies (SD) and Material Weaknesses (MW)



Source: Audit reports

Significant Deficiencies and Other Audit Findings

We established categories of findings and classified the various audit findings included in the county, municipality, or special district audit reports accordingly. Summaries of the predominant and most significant audit findings included in audit reports reviewed for 388 county agencies, 389 municipalities, and 781 special districts for the 2008-09 fiscal year are presented below by category. In addition, a summary of the number of reports including predominant and significant audit findings by type of local governmental entity, with comparative prior fiscal year information, is included as Exhibit C.

Separation of Duties. For 68 (18 percent) of the county agency reports, 79 (20 percent) of the municipality reports, and 49 (6 percent) of the special district reports, findings were noted regarding an inadequate separation of duties or responsibilities. This represents 13 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year. Inadequate separation of duties or responsibilities increases the possibility that errors or irregularities may occur and not be detected on a timely basis and diminishes the local governmental entity’s ability to properly safeguard assets. Many of these involved instances in which the county agencies, municipalities, and special districts contended that their staffs were small and it was not feasible economically to further separate duties or responsibilities. However, there were several instances in which the auditor recommended that the county agency, municipality, or special district reassign duties and responsibilities or establish compensating controls.

Policies and Procedures. For 11 (3 percent) of the county agency reports, 44 (11 percent) of the municipality reports, and 22 (3 percent) of the special district reports, policies and procedures were not established or were not followed to ensure that public business was conducted in accordance with laws, rules, ordinances, or good business practices. This represents 5 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year.

Budget Administration. For 13 (3 percent) of the county agency reports, 58 (15 percent) of the municipality reports, and 36 (5 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements for adopting and amending the budget, or inadequate budgetary controls. This represents 7 percent of

all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included problems relating to failure to properly adopt a budget, inadequate budgetary policies, failure to budget for all funds or projects, and overexpended budgets. Examples included a supervisor of elections that approved expenditures that exceeded the approved budget, a municipality's budget that did not include the appropriate amount carried forward from the prior year, and a special district that did not adopt a budget for its Capital Projects Fund. Such budgetary problems affect an entity's ability to demonstrate to the citizenry its proper use of public resources, and could result in inefficient or inappropriate use of its resources, resulting in deteriorating financial conditions.

General Accounting Records. For 52 (13 percent) of the county agency reports, 124 (32 percent) of the municipality reports, and 78 (10 percent) of the special district reports, findings were noted regarding inadequate accounting or other records, lack of subsidiary records or failure to timely reconcile subsidiary records to general ledger control accounts, and improper recording of transactions to the accounting records. This represents 16 percent of all reports and a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a property appraiser that did not formally document or approve journal entries, a municipality with journal entries that were not supported or approved by someone other than the person creating the entries, and a special district that did not accrue receivables and payables. Such recordkeeping problems affect an entity's ability to monitor its use of public resources, and increases the risk of inappropriate or inefficient use of resources. Improper recording of transactions also affects the reliability of the entity's reporting of its financial position and results of its operations.

Financial Reporting. For 48 (12 percent) of the county agency reports, 92 (24 percent) of the municipality reports, and 69 (9 percent) of the special district reports, findings were noted relating to the reporting of financial data either externally or within the local governmental entity. This represents 13 percent of all reports and a 1 percent decrease of reports with similar findings compared to the prior fiscal year. Examples included a board of county commissioners that had a variance in a quarterly report that could not be reconciled or explained, a municipality that did not timely submit its annual financial report to the Department of Financial Services, and a special district that did not identify an entity that should have been reported as a blended component unit. Such financial reporting problems affect an entity's ability to demonstrate compliance with legal and contractual requirements, and to provide assurance to interested parties (including its governing body) that it is in sound financial condition and is using its public resources in an efficient and appropriate manner.

Cash. For 16 (4 percent) of the county agency reports, 48 (12 percent) of the municipality reports, and 21 (3 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks. This represents 5 percent of all reports and is a 1 percent decrease of reports with similar findings compared to the prior fiscal year. These findings included inadequate or untimely bank reconciliations, stale-dated checks, inaccurate recording of cash transactions, and other cash accountability issues, including noncompliance with applicable legal requirements. Examples included a sheriff that had errors and omissions in bank reconciliations, a municipality that did not have controls to limit check amounts written from certain accounts, and a special district that could not find several bank statements. Such cash accountability problems increase the risk that unauthorized disbursements or losses of cash could occur without being promptly detected.

Capital Assets. For 18 (5 percent) of the county agency reports, 92 (24 percent) of the municipality reports, and 45 (6 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements pertaining to capital assets and the improper use of, and lack of accountability for, capital assets. This represents 10

percent of all reports and a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included inadequate or lack of capital asset records, failure to timely reconcile subsidiary capital asset records to general ledger control accounts, failure to perform an annual inventory and compare the inventory to capital asset records, failure to properly identify or tag property, and unauthorized disposals of capital assets. Examples included a board of county commissioners that did not have adequate procedures in place to ensure that capital asset additions, deletions, and transfers were properly and timely recorded; a municipality that had errors in capitalizing interest; and a special district that sold vehicles without receiving bids or holding a public auction. Capital asset accountability problems affect an entity's ability to safeguard capital assets and increase the risk that such assets could be misappropriated without being promptly detected.

Revenues/Collections. For 39 (10 percent) of the county agency reports, 88 (23 percent) of the municipality reports, and 35 (5 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable. This represents 10 percent of all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included improper recording of revenue or accounts receivable transactions, improper documentation for the receipt of revenues, lack of an adequate fee structure, untimely deposits, and deposits not made intact. Examples included a board of county commissioners that did not deposit checks received on a timely basis, a municipality that failed to ensure that the level of amounts charged to user funds are sufficiently balanced to sustain a self-insurance program, and a special district that did not properly record rental income in its financial statements. Such revenue and accounts receivable problems affect an entity's ability to ensure that cash collections are safeguarded against loss from unauthorized use or disposition. Failure to assess and collect all revenues to which the entity is entitled could contribute to deteriorating financial conditions.

Payroll and Personnel Administration. For 36 (9 percent) of the county agency reports, 70 (18 percent) of the municipality reports, and 23 (3 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration. This represents 8 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year. These findings included improper authorization and payment of salaries and benefits to employees, improper recording of payroll/personnel transactions, failure to properly and timely remit payroll taxes withheld, and other payroll/personnel matters. Examples included a supervisor of elections whose salary was greater than the statutory amount, a municipality that had a non-employee on its payroll register, and a special district that did not have its payroll certification report signed off on showing that it had been approved. Such personnel and payroll problems affect an entity's ability to demonstrate compliance with legal requirements and increases the risk of inappropriate or inefficient use of public resources.

Purchasing/Contract Management. For 28 (7 percent) of the county agency reports, 66 (17 percent) of the municipality reports, and 23 (3 percent) of the special district reports, findings were noted regarding procurement of goods or services and contract or grant management. This represents 8 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year. These findings included lack of monitoring and compliance with contractor grant provisions, failure to use purchase orders, lack of documented prior approval for purchases, noncompliance with bid/quotation requirements, and lack of documentation of receipt of goods or services. Examples included a clerk of the circuit court that entered into a contract with a company that is related to a key employee of the clerk's office, and this key employee approved the contract and all invoices associated with the transaction; a municipality that did not receive sealed bids or vendor quotes for a construction contract; and a special district that did not have purchasing card transactions approved by an authorized individual and had single

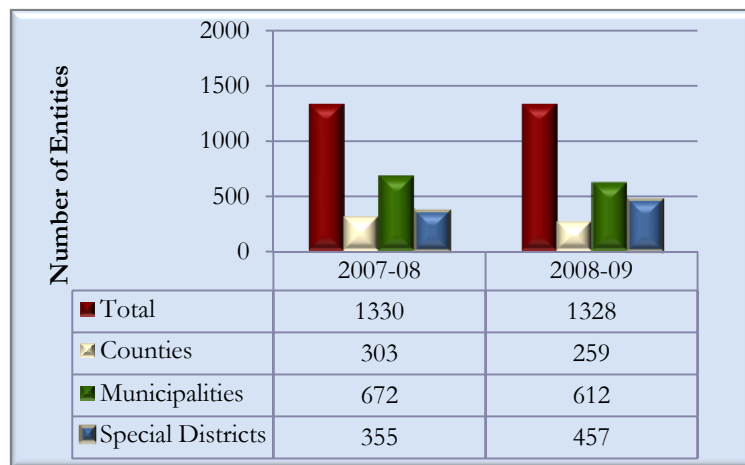
purchases in excess of the purchasing limit. Such purchasing/contract management problems affect an entity’s ability to demonstrate compliance with legal and contractual requirements and to monitor its use of public resources increasing the risk of inappropriate or inefficient use of public resources.

Expenditures/Expenses. For 33 (9 percent) of the county agency reports, 59 (15 percent) of the municipality reports, and 33 (4 percent) of the special district reports, findings were noted regarding the expenditure of public funds. This represents 8 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year. These findings included expenditures/expenses that were not properly documented, approved, or recorded; could be made more efficiently; or were not made in compliance with legal guidelines, laws, rules, or procedures. Examples included a supervisor of elections that recorded a transaction that was not properly supported by a purchase order or invoice, a municipality that had duplicate check numbers and check numbers that were skipped, and a special district that paid an invoice twice. Such expenditure/expense problems affect an entity’s ability to demonstrate compliance with legal requirements, and increase the risk of inappropriate or inefficient use of public resources.

Detail of Audit Findings

Chapter 10.550, Rules of the Auditor General, prescribes the required elements of audit report findings. Of the 2,752 findings in the audit reports reviewed, 1,328 (48 percent) did not include one or more of the required elements. As shown in Table 10, the total number of insufficiently detailed findings reported for the 2008-09 fiscal year decreased slightly compared to the prior fiscal year.

Table 10
Insufficiently Detailed Findings



Source: Auditor General

The total percentage of insufficiently detailed findings for the 2008-09 fiscal year increased from 47 to 48 percent compared to the prior fiscal year. The total number and percentage of insufficiently detailed findings remains high. Most such findings did not adequately provide one or more of the following, contrary to Section 10.557(4)(d), Rules of the Auditor General:

- A description of the criteria or specific requirement upon which the audit finding was based (e.g., statutory, regulatory, or other citation).
- A description of the condition found, including facts that support the deficiency identified in the finding.

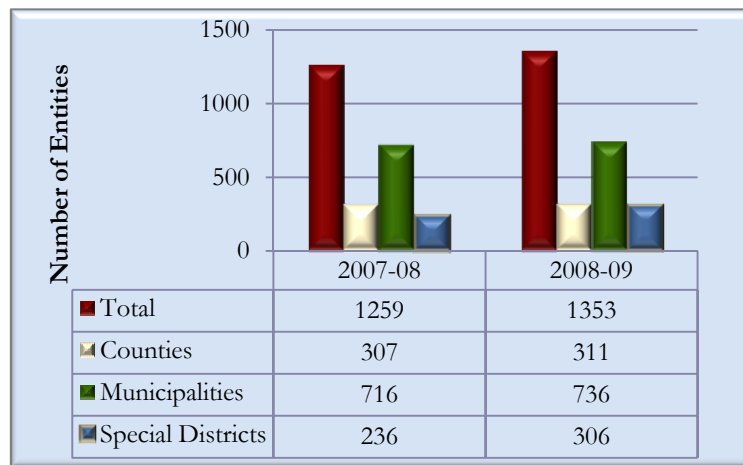
- A proper perspective for judging the prevalence and consequences of the finding, such as whether the findings represent an isolated instance or a systemic problem (e.g., the number of records examined and the quantity or dollar value of deficiencies noted).

Inadequately written audit findings make it difficult for audit report users to determine the exact nature of the problem addressed in the finding and necessary corrective action. This may have contributed to the percentage of repeated findings discussed below.

Repeated Prior Fiscal Year Findings

A significant number of the findings included in audit reports for the 2008-09 fiscal year were also included in audit reports for the prior fiscal year. Of the 2,752 findings included in the audit reports reviewed, 1,353 (49 percent) were repeated from the prior fiscal year audit reports. In addition, of the 1,141 findings identified as significant deficiencies, and the 616 identified as material weaknesses, 676 (59 percent) and 397 (64 percent), respectively, were repeated from the prior fiscal year audit reports. As shown in Table 11, there was an increase in the total number of repeated prior fiscal year findings for the 2008-09 fiscal year compared to the prior fiscal year. The percentage of repeated prior year findings to total findings also increased from 45 to 49 percent.

Table 11
Repeated Prior Fiscal Year Findings



Source: Audit reports

Many of these repeated findings for the 2008-09 fiscal year were also included in 2006-07 fiscal year audit reports. The percentage of repeated findings indicates that some county agencies, municipalities, and special districts are not addressing audit findings in a timely manner. During the 2011 legislative session, the Florida Legislature enacted Senate Bill 224 to encourage local governmental entities to take timely and appropriate action to address audit findings.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this project, for the audit reports submitted to us from local governmental entities, and the annual financial reports obtained from the Florida Department of Financial Services (FDFS), were to:

- Identify significant financial trends and findings based on our review of the audit reports; and
- Identify financial trends using information from the annual financial reports. Although all local governmental entities are required to file annual financial reports with the FDFS, all references to annual financial reports in this report pertain only to those we used in determining financial trends for unaudited entities. As a result, financial trends based on annual financial reports included herein are based, in part, on unverified amounts.

The scope of this project included a review of 2008-09 fiscal year audit reports for 66 counties (which included 388 individual county agency reports), 389 municipalities, and 781 special districts prepared by independent CPAs and submitted to us by February 28, 2011. The scope also included 7 municipality and 226 special district annual financial reports submitted to FDFS pursuant to Section 218.32(1)(e), Florida Statutes, by entities that were not required to provide for an audit. In addition, the scope included a review of audit reports received through February 28, 2011, for the purpose of identifying entities that were reported as having met a condition specified in Section 218.503(1), Florida Statutes.

Our methodology included a review of applicable audit reports and annual financial 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 financial trends and findings identified in local governmental entity audit reports prepared by independent certified public accountants or, for entities not required to provide for an audit, local governmental entity annual financial reports, for the fiscal year ended September 30, 2009.



David W. Martin, CPA
Auditor General

EXHIBIT A
FINANCIAL INDICATORS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

Financial Indicator	Warning Trend
Unreserved Fund Balance + Unrestricted Net Assets (Constant \$)	Declining results may indicate that the entity could have difficulty maintaining a stable tax and revenue structure or adequate level of services. Deficits may indicate a financial emergency.
Unreserved Fund Balance/Total Expenditures	Percentages decreasing over time may indicate unstructured budgets that could lead to future budgetary problems for the entity even if current fund balance is positive.
Cash & Investments/Current Liabilities Cash & Investments/Total Expenditures or Expenses Divided by 12	Percentages decreasing over time may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet current needs.
Current Liabilities/Total Revenues or Total Operating Revenues	Increasing results may indicate liquidity problems, deficit spending, or both.
Long-Term Debt/Population	Percentages increasing over time may indicate that the entity has a decreasing level of flexibility in how resources are allocated or decreasing ability to pay long-term debt.
Excess of Revenues Over (Under) Expenditures/Total Revenues	Decreasing surpluses or increasing deficits may indicate that current revenues are not supporting current expenditures.
Operating Income(Loss)/Total Operating Revenues	Decreasing income or increasing losses may indicate that current revenues are not supporting current expenses.
Intergovernmental Revenues/Total Revenues or Total Operating Revenues	Percentages increasing over time indicate a greater risk assumed by the entity due to increased dependence on outside revenues.
Unreserved Fund Balances or Unrestricted Net Assets/Total Revenues or Total Operating Revenues	Decreasing results may indicate a reduction in the entity's ability to withstand financial emergencies or fund capital purchases without having to borrow.
Total Revenues (Constant \$)/Population	Decreasing results indicate that the entity may be unable to maintain existing service levels with current revenue sources.
Debt Service/Total Expenditures	Percentages increasing over time may indicate the entity has declining flexibility to respond to economic changes.
Total Expenditures or Expenses (Constant \$)/Population	Increasing results may indicate that costs of providing services are outstripping the entity's ability to pay (i.e., entity may be unable to maintain services at current levels).
Millage Rate	Millage rates approaching the statutory limit may indicate that the entity has a reduced ability to raise additional funds when needed.

Note: For some of the financial indicators, it is necessary to adjust for inflation by translating current dollars into constant dollars.

EXHIBIT B
SUMMARY OF REPORTS INCLUDING SIGNIFICANT DEFICIENCIES (SD) AND MATERIAL WEAKNESSES (MW)
BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

Category	Number of Reports							
	Counties		Municipalities		Special Districts		Total	
	SD	MW	SD	MW	SD	MW	SD	MW
<i>Separation of Duties</i> – Findings related to inadequate separation of duties	64	48	71	44	40	16	175	108
<i>Policies and Procedures</i> – Findings related to general lack of policies and procedures	3	1	13	3	5	2	21	6
<i>Budget Administration</i> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	5	5	6	3	2	0	13	8
<i>General Accounting Records</i> – Findings related to inadequate accounting or other records, failure to timely reconcile subsidiary records to control accounts, or inadequate recording of transactions (excludes capital assets)	37	28	75	48	30	21	142	97
<i>Financial Reporting</i> – Findings related to reporting of financial data externally or within the local governmental entity	46	27	74	49	59	44	179	120
<i>Cash</i> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	10	6	19	13	9	2	38	21
<i>Capital Assets</i> - Findings related to noncompliance with legal requirements pertaining to capital assets and the improper use of, and lack of accountability for, capital assets	10	4	43	22	24	7	77	33
<i>Revenues/Collections</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	17	8	37	15	8	4	62	27
<i>Payroll and Personnel Administration</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	11	2	16	8	6	2	33	12
<i>Purchasing/Contract Management</i> - Findings related to problems with procurement of goods or services and contract or grant management	7	3	22	10	4	0	33	13
<i>Expenditures/Expenses</i> - Findings related to the expenditure of public funds	14	5	24	13	11	5	49	23

EXHIBIT C
SUMMARY OF REPORTS INCLUDING PREDOMINANT AND SIGNIFICANT AUDIT FINDINGS
BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008 AND 2009

Category	Number of Reports							
	Counties		Municipalities		Special Districts		Total	
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2009
<i>Separation of Duties</i> – Findings related to inadequate separation of duties	72	68	80	79	48	49	200	196
<i>Policies and Procedures</i> – Findings related to general lack of policies and procedures	15	11	45	44	21	22	81	77
<i>Budget Administration</i> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	23	13	66	58	37	36	126	107
<i>General Accounting Records</i> – Findings related to inadequate accounting or other records, failure to timely reconcile subsidiary records to control accounts, or inadequate recording of transactions (excludes capital assets)	55	52	141	124	83	78	279	254
<i>Financial Reporting</i> – Findings related to reporting of financial data externally or within the local governmental entity	59	48	93	92	56	69	208	209
<i>Cash</i> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	15	16	57	48	14	21	86	85
<i>Capital Assets</i> - Findings related to noncompliance with legal requirements pertaining to capital assets and the improper use of, and lack of accountability for, capital assets	28	18	104	92	46	45	178	155
<i>Revenues/Collections</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	33	39	100	88	28	35	161	162
<i>Payroll and Personnel Administration</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	38	36	71	70	15	23	124	129
<i>Purchasing/Contract Management</i> - Findings related to problems with procurement of goods or services and contract or grant management	29	28	72	66	15	23	116	117
<i>Expenditures/Expenses</i> - Findings related to the expenditure of public funds	27	33	65	59	28	33	120	125