

**REPORT ON SIGNIFICANT FINANCIAL
TRENDS AND FINDINGS
IDENTIFIED IN LOCAL GOVERNMENTAL
ENTITY 2009-10 FISCAL YEAR
AUDIT REPORTS
AND
ANNUAL FINANCIAL REPORTS**



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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY 2009-10 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, annual financial reports for unaudited entities submitted to the Florida Department of Financial Services, and other information for the 2009-10 fiscal year.

Significant Financial Trends

- Of the local governmental entities that submitted audit reports to us as of December 5, 2011, 111 were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes,¹ which could result in these entities being declared to be in a state of financial emergency. In addition, our review of 199 annual financial reports for unaudited local governmental entities disclosed that 44 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes. The 155 entities meeting one or more of the specified conditions represents a 52 percent increase compared to the prior fiscal year. This increase is primarily attributable to special districts.
- Many local governmental entities are experiencing deteriorating financial conditions. A total of 98 local governmental entities were reported as experiencing deteriorating financial conditions. 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 2001, there has been a significant decrease over the past four years. Since 2006, taxable property values have decreased by approximately \$290 billion (18 percent) and \$152 billion (18 percent) for counties and municipalities, respectively. Taxes levied decreased by approximately \$1.9 billion (22 percent) and \$689 million (17 percent) for counties and municipalities, respectively, over the same period. Contributing factors to the 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. Of the 2,381 findings included in 2009-10 fiscal year audit reports reviewed, 984 (41 percent) were identified as significant deficiencies and 442 (19 percent) of those were also identified as material weaknesses.
- For many of the audit reports reviewed, the findings did not include one or more of the elements required by Chapter 10.550, Rules of the Auditor General.
- Of the 2,381 findings included in 2009-10 fiscal year audit reports reviewed, 1,237 (52 percent) were findings that had also been included in audit reports for the prior fiscal year. During the 2011 legislative session, the Florida Legislature enacted Chapter 2011-144, Laws of Florida, which revised Section 218.39, Florida Statutes, to encourage local governmental entities to take timely and appropriate action to address audit findings.

¹ All statutory references are to the 2010 Florida Statutes, except when otherwise noted.

BACKGROUND

Section 11.45(2)(h), Florida Statutes, establishes 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. Section 218.39(1), Florida Statutes, provides for local governmental entity audits to be performed by independent certified public accountants (CPAs). 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 CPAs and submitted to us. If an entity is reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, 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 balance² 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.

² During the 2011 legislative session, the Florida Legislature enacted Chapter 2011-144, Laws of Florida, which revised Section 218.503(1)(e), Florida Statutes, to be consistent with the fund balance classifications as defined in Governmental Accounting Standards Board Statement No. 54.

Our review of the 2009-10 fiscal year local governmental entity audit reports prepared by independent certified public accountants and received by us as of December 5, 2011, disclosed that a total of 111 entities (10 municipalities and 101 special districts) were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, which could result in these entities being declared to be in a state of financial emergency. Our review of 199 annual financial reports for unaudited local governmental entities disclosed that 44 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes. The 155 entities meeting one or more of the specified conditions as compared to the 102³ noted for the prior fiscal year represents a 52 percent increase. This increase is primarily attributable to special districts.

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 68 of the 111 entities reported as meeting one or more of the conditions as of September 30, 2010, 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, 2010, we also reported to the Legislative Auditing Committee and the Governor a total of 10 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, 2010.

Deteriorating Financial Conditions

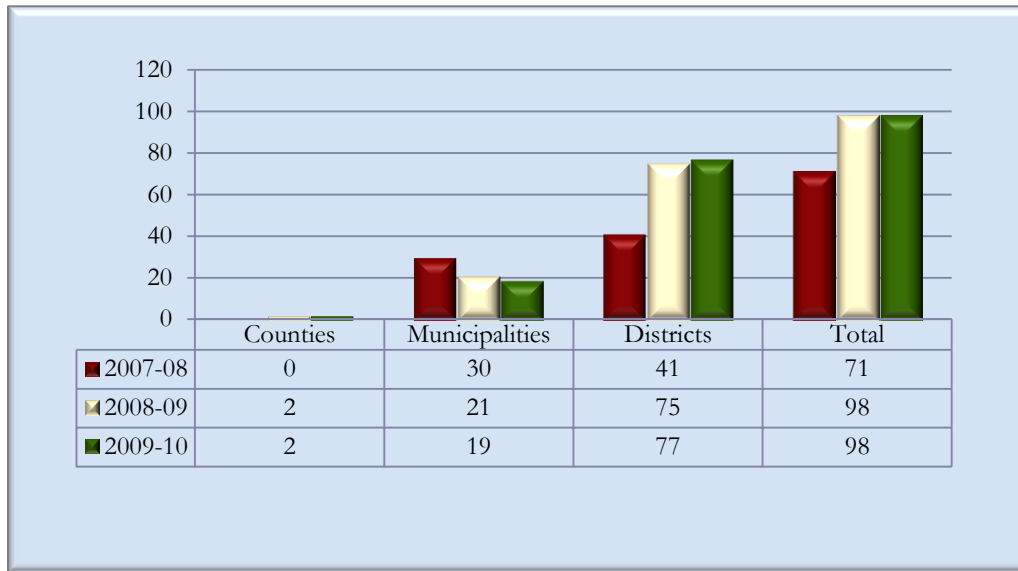
Section 218.39(5), Florida Statutes, requires auditors to notify local governmental entity officials or their designees when deteriorating financial conditions exist that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. 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 municipality's failure to implement cost reductions or revenue enhancements to replenish fund equities and cash reserves may result in a condition specified in Section 218.503(1), Florida Statutes.

Auditors reported a total of 98 entities (2 counties, 19 municipalities and 77 special districts) as experiencing deteriorating financial conditions as of September 30, 2010, the same number of reports as compared to the prior fiscal year, as shown in Table 1.⁴

³ The number of entities reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, for the 2008-09 fiscal year differs from the number reported in report No. 2011-186 because additional reports for that fiscal year were received subsequent to the release of report No. 2011-186.

⁴ The number of entities reported in Table 1 as experiencing financial condition problems for the 2008-09 fiscal years differs from the number reported in report No. 2011-186 because additional reports for that fiscal year were received subsequent to the release of report No. 2011-186.

**Table 1
Deteriorating Financial Conditions**



Source: Audit reports

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 2009 to January 2010, taxable property values decreased by 11 percent for counties and 12 percent for municipalities; average millage rates increased 1 percent for counties and 5 percent for municipalities; and taxes levied decreased by 8 and 9 percent for counties and municipalities, respectively.

For 2010, the average ad valorem millage rate was 6.5173 for counties and 4.4030 for municipalities. The average millage rate has decreased 14 percent for counties and increased 2 percent for municipalities since 2001.

As noted in prior fiscal years, we found that, on average, lesser-populated counties and higher-populated municipalities generally had higher 2010 millage rates than higher-populated counties and lower-populated municipalities, as shown in Table 2.

Table 2

Counties		Municipalities	
Population Range	Average 2010 Millage	Population Range	Average 2010 Millage
< 25,000	8.6308	< 1,000	2.9826
25,000 – 74,999	7.4665	1,000 – 2,999	4.4991
75,000 – 224,999	4.8519	3,000 – 9,999	4.4405
225,000 – 674,999	5.6515	10,000 – 24,999	4.6003
675,000 +	5.0547	25,000 – 99,999	4.9172
		100,000 +	6.0420

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)
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	\$1,701,867,814,355	\$7,791,725,395
2009	6.4761	\$1,513,040,958,619	\$7,160,149,619
2010	6.5173	\$1,345,093,391,219	\$6,563,758,622

Table 4

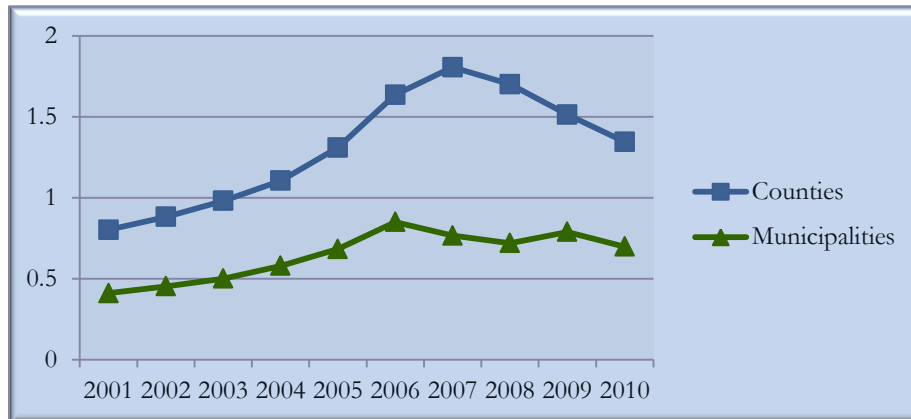
Municipalities			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
2001	4.3295	\$411,130,619,849	\$2,002,100,239
2002	4.4184	\$453,402,682,823	\$2,207,838,534
2003	4.3834	\$501,884,576,162	\$2,438,905,213
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,319,146,683	\$3,272,616,315
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	\$789,797,843,364	\$3,586,619,289
2010	4.4030	\$698,393,011,166	\$3,259,169,821

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

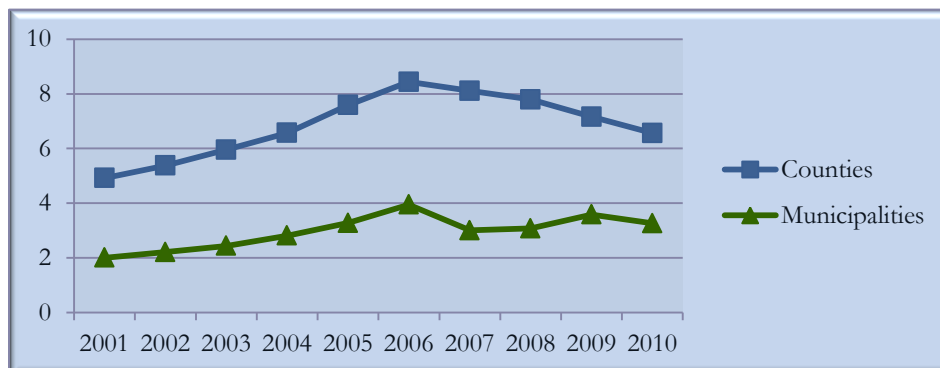
Average millage rates for counties generally decreased from 2001 to 2007; however, they have increased in each of the past three years. Average millage rates for municipalities have been more erratic over the 10-year period. As shown in Tables 5 and 6, although there is an overall increase in the taxable property values and taxes levied since 2001, there has been a significant decline in taxable property values and taxes levied since 2006. Taxable property values have declined by approximately \$290 billion (18 percent) and \$152 billion (18 percent) for counties and municipalities, respectively, over the past four years. Taxes levied have decreased by approximately \$1.9 billion (22 percent) and \$689 million (17 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

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 2000-01 through 2009-10 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.

Fund Equity and Results of Operations

As shown in Table 7, 119 entities reported deficit unreserved/unrestricted fund equities as of September 30, 2010, an increase of 72 percent as compared to the 2004-05 fiscal year. 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 714 entities (or 52 percent of reports reviewed) experienced net losses when both governmental and proprietary funds were taken into account for the 2009-10 fiscal year, as compared to 547 entities (or 49 percent of reports reviewed) for the 2004-05 fiscal year. The most significant changes were reported by counties and municipalities, where the percentage of entities that experienced net losses grew from 26 percent to 80 percent for counties and from 37 percent to 51 percent for municipalities when comparing the 2004-05 to the 2009-10 fiscal year. Since the percentage of entities reporting net deficit unreserved/unrestricted fund equities increased over the same period, the increases in net losses may indicate the use of excess reserves from prior years to fund current operations.

Additionally, of the entities that experienced net losses, 133 (or 10 percent of reports reviewed) also reported net deficit unreserved/unrestricted fund equities as of September 30, 2010. This is a 5 percent increase in the percentage of entities reporting net deficit unreserved/unrestricted fund equities compared to the fiscal year ended September 30, 2005. 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 7⁵

Condition	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2001	2005	2010	2001	2005	2010	2001	2005	2010	2001	2005	2010
Number of reports reviewed.	66	66	66	381	389	388	473	667	918	920	1,122	1,372
Reported net deficit total unreserved/unrestricted fund equity.	0	3	0	19	4	12	38	62	107	57	69	119
Reported no unreserved/unrestricted fund equity.	0	0	0	0	0	0	29	54	92	29	54	92
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	44	31	53	268	228	292	252	422	468	564	681	813
Experienced net losses when both governmental and proprietary funds were taken into account.	38	17	53	172	145	198	242	385	463	452	547	714
Experienced net losses and reported net deficit unreserved/unrestricted fund equity.	0	0	0	14	2	8	30	57	125	44	59	133

Source: Audit reports and annual financial reports

Other Trends

A total of 120 audited entities (3 counties, 30 municipalities, and 87 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2010, as compared to 96 as of September 30, 2005. Of these, 76 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 52 for the 2004-05 fiscal year. In addition, 72 special districts reporting via annual financial reports, reported cash and investments in amounts not sufficient to cover current liabilities as of September 30, 2010. 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 \$31.5 billion as of September 30, 2010, an increase of \$7.3 billion, or 30 percent, compared to \$24.2 billion as of September 30, 2005, 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,

⁵ Table 7 includes 64 special districts that reported no unreserved/unrestricted fund equity, and 44 special districts that reported deficit unreserved/unrestricted fund equity, on their 2009-10 fiscal year annual financial reports. Table 7 also includes 93 special districts and 6 municipalities that reported losses in either governmental or proprietary funds, and reported net losses when both governmental and proprietary funds were considered, on their 2009-10 fiscal year annual financial reports.

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 2009-10 fiscal year resulting in decreased taxes and other revenues. Further economic weakness was experienced in the 2010-11 fiscal year. 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, 25 of the 1,497⁶ audit reports reviewed (including 388 county agencies, 379 municipalities, and 730 special districts) for the 2009-10 fiscal year contained modified opinions.

⁶ Includes all 2009-10 fiscal year audit reports submitted to us as of October 7, 2011.

Table 8

Entity Name	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Baker County Board of County Commissioners	X		
Holmes County Board of County Commissioners	X		
Union County Board of County Commissioners	X		
Washington County Board of County Commissioners	X		
Town of Altha	X		
Town of Callahan	X		
City of Chiefland	X		
Town of Cross City	X		
Town of Eatonville	X		
City of Fanning Springs	X		
Town of Gulfstream	X		
Town of Hastings	X		
Town of Howey-in-the-Hills	X		
Town of Inglis	X		
Town of Lake Hamilton			X
City of South Bay		X	
City of Valparaiso	X		
City of Webster	X		
Town of Yankeetown	X		
Big Bend Water Authority	X		
East Niceville Fire District	X		
Escambia County Law Library	X		
New River Public Library Cooperative	X		
Southeast Volusia Hospital District		X	
St. Augustine Port, Waterway and Beach District	X		

Source: Audit reports

The number of reports that included qualified opinions increased from 9 in the prior fiscal year to 22 for the 2009-10 fiscal year, or 144 percent, due primarily to entities not implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Other reasons for qualified opinions included inadequate documentation to support capital assets, improper valuation of real property, and the inclusion of an unaudited component unit in the entity’s financial statements. The adverse opinions were issued for inadequate documentation to support capital assets and the exclusion of a component unit from the entity’s financial statements. The disclaimer of opinion was issued because financial and other information provided to the auditor was too limited to warrant the expression of an opinion.

Classification of Audit Findings

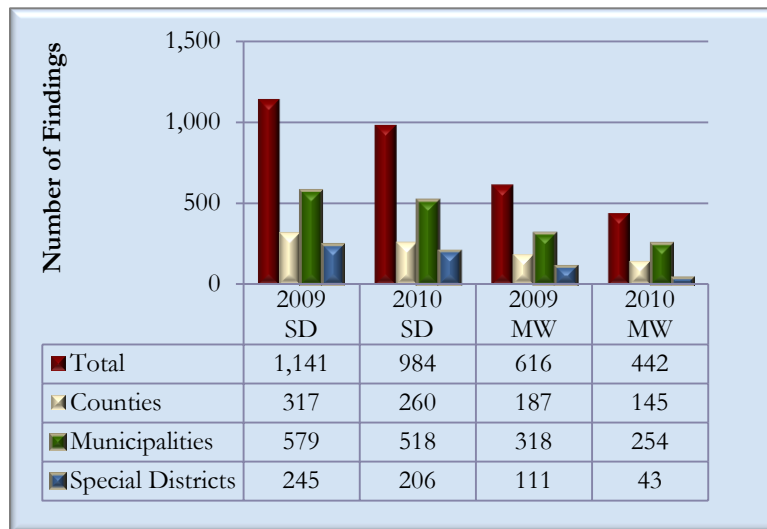
Auditing standards require auditors to report significant deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a

deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Of the 1,497 audit reports reviewed, 335 (22 percent) reported a significant deficiency(ies), of which 182 (12 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 2,381 findings included in audit reports reviewed, 984 (41 percent) were considered significant deficiencies, of which 442 (19 percent) were also considered material weaknesses. In addition, as shown in Table 9, the number of significant deficiencies and material weaknesses decreased by 157 (from 1,141 to 984, or 14 percent) and 174 (from 616 to 442, or 28 percent), respectively, compared to the prior fiscal year. The decrease may have been contributed to by the American Institute of Certified Public Accountants' issuance of Statement on Auditing Standards No. 115, effective for 2009-10 fiscal year audits, which redefined the terms *significant deficiency* and *material weakness*.

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, 379 municipalities, and 730 special districts for the 2009-10 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 58 (15 percent) of the county agency reports, 74 (20 percent) of the municipality reports, and 45 (6 percent) of the special district reports, findings were noted regarding an inadequate separation of duties or responsibilities. This represents 12 percent of all reports and is a 1 percent decrease in the 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 7 (2 percent) of the county agency reports, 32 (8 percent) of the municipality reports, and 16 (2 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 4 percent of all reports and is a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year.

Budget Administration. For 16 (4 percent) of the county agency reports, 52 (14 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 is the same 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 board of county commissioners that did not properly budget all receipts reasonably anticipated from all sources, contrary to Section 129.01(2)(b), Florida Statutes; a municipality's budget that was amended after the 60-day period allowed under Section 166.241(4), Florida Statutes; and a special district that did not properly report budget amendments in the budget/accounting system or in the financial statements. 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 44 (11 percent) of the county agency reports, 101 (27 percent) of the municipality reports, and 70 (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, or improper recording of transactions to the accounting records. This represents 14 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 board of county commissioners that needed material audit adjustments to their financial statements, a municipality that was unable to locate various accounting records in a timely manner, and a special district that did not follow the Florida Department of Financial Services' Uniform Accounting System Chart of Accounts. 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 49 (13 percent) of the county agency reports, 81 (21 percent) of the municipality reports, and 59 (8 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 is the same percentage of reports with similar findings compared to the prior fiscal year. Examples included a board of county commissioners that failed to timely submit certain required reports to the United States Department of Housing and Urban Development, a municipality with financial statements that were materially misstated, and a special district that overstated operating expenses in its annual financial report. Financial reporting problems affect an entity's ability to demonstrate compliance with legal, contractual, and financial reporting 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 18 (5 percent) of the county agency reports, 38 (10 percent) of the municipality reports, and 25 (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 the same percentage 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 supervisor of elections that did not remit stale-dated checks to the State, contrary to Chapter 717, Florida Statutes; a municipality that had two bank accounts that were overdrawn by a total of \$121,408; and a special district that did not file its Public Deposit Identification and Acknowledgement form or Public Depositor Annual Report with the Chief Financial Officer, contrary to Sections 280.17(2)(b) and 280.17(6), Florida Statutes, respectively. 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, 80 (21 percent) of the municipality reports, and 34 (5 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements pertaining to capital assets or the improper use of, and lack of accountability for, capital assets. This represents 9 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 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 tag purchased information technology equipment with property identification numbers and did not record the equipment in its inventory system, a municipality that incorrectly recorded a capital lease as an operating lease, and a special district for which certain capital assets were deleted without pre-approval from the special district's governing body. 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 29 (7 percent) of the county agency reports, 81 (21 percent) of the municipality reports, and 33 (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 is the same 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 under billed a lessee approximately \$290,000 over a four-year period, a municipality that billed utility customers at rates that did not agree with the entity's utility rate sheet, and a special district that did not properly secure unsold event tickets. 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 18 (5 percent) of the county agency reports, 63 (17 percent) of the municipality reports, and 20 (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 7 percent of all reports and is a 1 percent decrease in the 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, or other payroll/personnel matters. Examples included a sheriff that had an employee who was on vacation but reported time for eight hours as if he/she had worked, a municipality that overpaid a terminated employee's final payment, and a special district payroll for which the amount of State and Federal unemployment compensation being remitted to taxing authorities was not in accordance with regulations. 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.

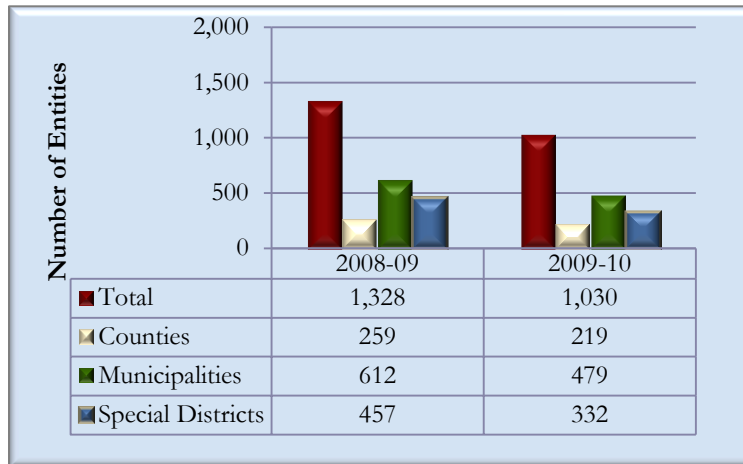
Purchasing/Contract Management. For 32 (8 percent) of the county agency reports, 71 (19 percent) of the municipality reports, and 26 (4 percent) of the special district reports, findings were noted regarding procurement of goods or services, or contract or grant management. This represents 9 percent of all reports and is a 1 percent increase in the 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 board of county commissioners that did not always use purchase orders, a municipality that did not have a formal written purchase policy, and a special district with grant financial reports that did not always reconcile to the information in the general ledger or other supporting documentation. 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 19 (5 percent) of the county agency reports, 42 (11 percent) of the municipality reports, and 21 (3 percent) of the special district reports, findings were noted regarding the expenditure of public funds. This represents 5 percent of all reports and is a 3 percent decrease in the 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 did not have supporting documentation for certain checks, a municipality that did not pay its credit card bills timely and incurred late fees and finance charges, and a special district that paid the electric bill for a private residence for the past 11 years. 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 2,381 findings included in audit reports reviewed, 1,030 (43 percent) did not include one or more of the required elements. Table 10 present the total number of insufficiently detailed findings reported for the last two fiscal years.

Table 10
Insufficiently Detailed Findings



Source: Auditor General

Although the total percentage of insufficiently detailed findings for the 2009-10 fiscal year decreased from 48 to 43 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:

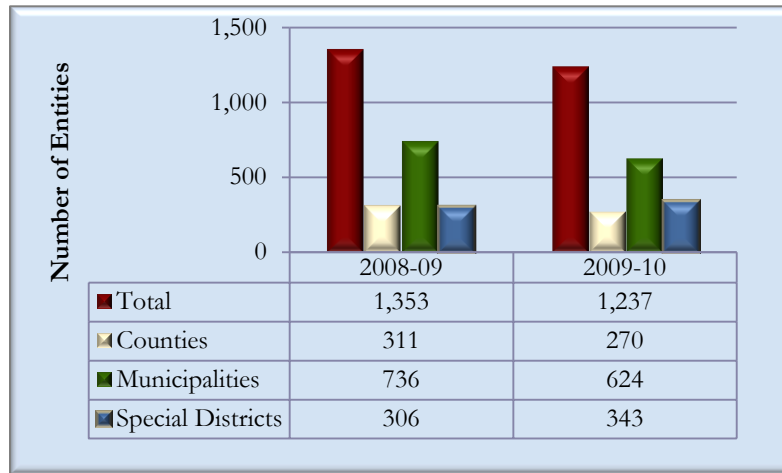
- A description of the criteria or specific requirement upon which the audit finding was based (e.g., statutory, regulatory, or other citation).
- A description of the condition found, including facts that support the deficiency identified in the finding.
- A proper perspective for judging the prevalence 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 2009-10 fiscal year were also included in audit reports for the prior fiscal year. Of the 2,381 findings included in audit reports reviewed, 1,237 (52 percent) were repeated from the prior fiscal year audit reports. As shown in Table 11, there was a decrease in the total number of repeated prior fiscal year findings for the 2009-10 fiscal year compared to the 2008-09 fiscal year; however, the percentage of repeated prior year findings to total findings increased from 49 to 52 percent.

Table 11
Repeated Prior Fiscal Years Findings



Source: Audit reports

During the 2011 legislative session, the Florida Legislature enacted Chapter 2011-144, Laws of Florida, which revised Section 218.39, Florida Statutes, to encourage local governmental entities to take timely and appropriate action to address audit findings. Pursuant to Section 218.39(8), Florida Statutes (2011), beginning with the audit reports filed for the 2010-11 fiscal year, the Auditor General must notify the Legislative Auditing Committee of any audit report prepared pursuant to that section that indicates that an audited entity has failed to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports.

OTHER MATTERS OF INTEREST

GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to enhance the usefulness of fund balance information reported in the financial statements by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. Additional classifications are restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. Local governmental entities are required to implement GASB Statement No. 54 for fiscal years beginning after June 15, 2011. Because this Statement redefined fund balance categories, it will have a significant impact on the reporting of future financial trends.

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 2009-10 fiscal year audit reports for 66 counties (which included 388 individual county agency reports), 379 municipalities, and 730 special districts prepared by independent CPAs and submitted to us by October 7, 2011. The scope also included 9 municipality and 190 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 December 5, 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, 2010.



David W. Martin, CPA
Auditor General

EXHIBIT A
FINANCIAL INDICATORS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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, 2010

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	55	39	61	38	17	5	133	82
<i>Policies and Procedures</i> – Findings related to general lack of policies and procedures	2	2	8	0	1	0	11	2
<i>Budget Administration</i> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	3	3	7	2	0	0	10	5
<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)	30	23	65	38	11	3	106	64
<i>Financial Reporting</i> – Findings related to reporting of financial data externally or within the local governmental entity	44	23	65	45	25	5	134	73
<i>Cash</i> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	5	3	22	13	2	1	29	17
<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	9	2	46	22	4	1	59	25
<i>Revenues/Collections</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	11	5	30	11	2	1	43	17
<i>Payroll and Personnel Administration</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	8	3	21	11	4	0	33	14
<i>Purchasing/Contract Management</i> - Findings related to problems with procurement of goods or services and contract or grant management	8	3	26	9	5	0	39	12
<i>Expenditures/Expenses</i> - Findings related to the expenditure of public funds	4	1	16	9	4	1	24	11

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, 2009 AND 2010

Category	Counties		Municipalities		Special Districts		Total	
	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2010
<i>Separation of Duties</i> – Findings related to inadequate separation of duties	68	58	79	74	49	45	196	177
<i>Policies and Procedures</i> – Findings related to general lack of policies and procedures	11	7	44	32	22	16	77	55
<i>Budget Administration</i> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	13	16	58	52	36	36	107	104
<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)	52	44	124	101	78	70	254	215
<i>Financial Reporting</i> – Findings related to reporting of financial data externally or within the local governmental entity	48	49	92	81	69	59	209	189
<i>Cash</i> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	16	18	48	38	21	25	85	81
<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	18	18	92	80	45	34	155	132
<i>Revenues/Collections</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	39	29	88	81	35	33	162	143
<i>Payroll and Personnel Administration</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	36	18	70	63	23	20	129	101
<i>Purchasing/Contract Management</i> - Findings related to problems with procurement of goods or services and contract or grant management	28	32	66	71	23	26	117	129
<i>Expenditures/Expenses</i> - Findings related to the expenditure of public funds	33	19	59	42	33	21	125	82