

**REPORT ON SIGNIFICANT FINANCIAL  
TRENDS AND FINDINGS  
IDENTIFIED IN LOCAL GOVERNMENTAL  
ENTITY 2010-11 FISCAL YEAR  
AUDIT REPORTS  
AND  
ANNUAL FINANCIAL REPORTS**

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## REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY 2010-11 FISCAL YEAR AUDIT REPORTS AND ANNUAL FINANCIAL REPORTS

### SUMMARY

This report provides a summary of significant financial trends and findings identified in local governmental entity 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 2010-11 fiscal year.

#### Significant Financial Trends

- Of the local governmental entities that submitted 2010-11 fiscal year audit reports to us as of August 24, 2012, 113 were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes,<sup>1</sup> which could result in these entities being declared to be in a state of financial emergency. In addition, our review of 165 annual financial reports for unaudited local governmental entities disclosed that 36 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes.
- Many local governmental entities are experiencing deteriorating financial conditions. A total of 90 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 unassigned/assigned 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 2002, there has been a significant decrease over the past five years. Since 2006, taxable property values have decreased by approximately \$349 billion (21 percent) and \$179 billion (21 percent) for counties and municipalities, respectively. Taxes levied decreased by approximately \$2.2 billion (26 percent) and \$783 million (20 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 1,527 audit reports reviewed for the 2010-11 fiscal year, 200 (13 percent) reported a significant deficiency(ies) and 211 (14 percent) reported a material weakness(es). The significant deficiencies and material weaknesses reported were primarily in the categories of separation of duties, general accounting records, and financial reporting.
- 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 2,015 findings included in 2010-11 fiscal year audit reports reviewed, 1,103 (55 percent) were repeated from the 2009-10 fiscal year audit reports and, of those, 793 (39 percent) were also repeated from the 2008-09 fiscal year audit reports.

<sup>1</sup> All statutory references are to the 2011 Florida Statutes, except when otherwise noted.

## BACKGROUND

Section 11.45(2)(g), 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 unassigned and assigned 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 2010-11 fiscal year local governmental entity audit reports prepared by independent certified public accountants and received by us as of August 24, 2012, disclosed that a total of 113 entities (1 county, 8 municipalities

and 104 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 165 annual financial reports for unaudited local governmental entities disclosed that 36 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes.

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 75 of the 113 entities reported as meeting one or more of the conditions as of September 30, 2011, 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, 2011, we also reported to the Legislative Auditing Committee and the Governor a total of 4 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, 2011.

During the 2012 Legislative session, the Florida Legislature enacted Chapter 2012-38, Laws of Florida, which eliminated the condition specified in Section 218.503(1)(e), Florida Statutes, regarding deficit balances and revised Section 218.39(5), Florida Statutes, to require auditors to notify members of the governing body of the respective entity for which this condition exists. Thirty-eight of the 113 local governmental entities met only the condition specified in Section 218.503(e), Florida Statutes. The remaining 75 local governmental entities met one or more of the other conditions specified in Section 218.503(1), Florida Statutes.

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### **Deteriorating Financial Conditions**

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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 90 entities (16 municipalities and 74 special districts) as experiencing deteriorating financial conditions as of September 30, 2011.

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### **Millage Rates, Taxable Property Values, and Taxes Levied**

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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 2010 to January 2011, taxable property values decreased by 4 percent for counties and municipalities; average millage rates increased by 1 and 2 percent for counties and municipalities, respectively; and taxes levied decreased by 5 and 3 percent for counties and municipalities, respectively.

For 2011, the average ad valorem millage rate was 6.5857 for counties and 4.4754 for municipalities. The average millage rate has decreased 13 percent for counties and increased 1 percent for municipalities since 2002.

As noted in prior fiscal years, we found that, on average, lesser-populated counties and higher-populated municipalities generally had higher 2011 millage rates than higher-populated counties and lower-populated municipalities, as shown in Table 1.

**Table 1**

Counties		Municipalities	
Population Range	Average 2011 Millage	Population Range	Average 2011 Millage
< 25,000	8.6894	< 1,000	2.9933
25,000 – 74,999	7.3085	1,000 – 2,999	4.6498
75,000 – 224,999	5.0972	3,000 – 9,999	4.5336
225,000 – 674,999	5.7061	10,000 – 24,999	4.7118
675,000 +	4.9699	25,000 – 99,999	5.0529
		100,000 +	6.1286

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 2 and 3.

**Table 2**

Counties			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
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	\$1,502,792,440,160	\$7,160,149,619
2010	6.5173	\$1,342,647,219,175	\$6,563,758,622
2011	6.5857	\$1,286,288,672,092	\$6,217,195,940

**Table 3**

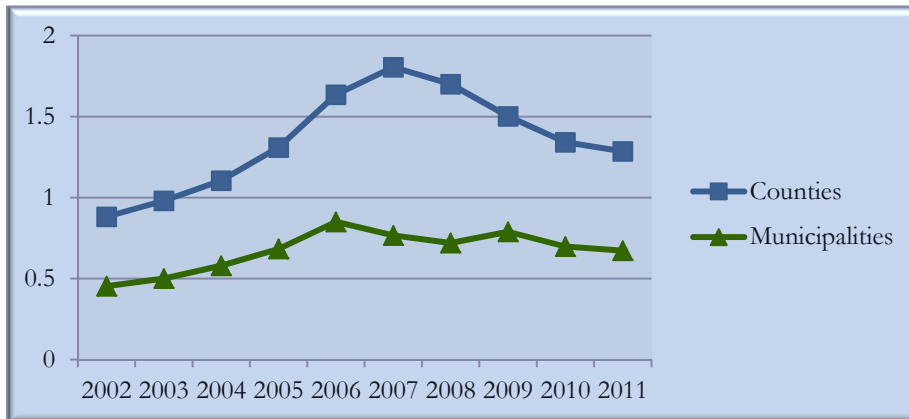
Municipalities			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
2002	4.4184	\$453,402,682,823	\$2,207,838,534
2003	4.3834	\$501,884,576,162	\$2,438,905,213
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,319,146,683	\$3,272,616,315
2006	4.2689	\$850,654,287,997	\$3,948,085,738
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
2011	4.4754	\$672,020,162,040	\$3,165,072,038

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

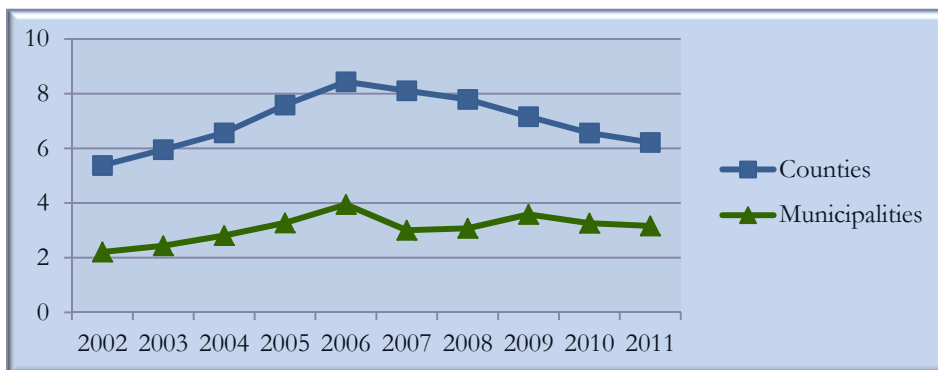
Average millage rates for counties generally decreased from 2002 to 2007; however, they have increased in each of the past four years. Average millage rates for municipalities have been more erratic over the 10-year period; however, they have increased in each of the past three years. As shown in Tables 4 and 5, although there is an overall increase in the taxable property values and taxes levied since 2002, there has been a significant decrease in taxable property values and taxes levied since 2006. Taxable property values have decreased by approximately \$349 billion (21 percent) and \$179 billion (21 percent) for counties and municipalities, respectively, over the past five years. Taxes levied have decreased by approximately \$2.2 billion (26 percent) and \$783 million (20 percent) for counties and municipalities, respectively, over the same period.

**Table 4**  
**Taxable Property Values**  
**(In trillions)**



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

**Table 5**  
**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 2001-02 through 2010-11 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***

Effective for the 2010-11 fiscal year, local governments were required to implement the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, which established 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. Our review disclosed that 96 percent of the applicable local governments implemented GASB Statement No. 54 for the fiscal year ending September 30, 2011.

As shown in Table 6, 128 entities reported deficit unassigned and assigned<sup>2</sup>/unrestricted fund equities as of September 30, 2011, an increase of 167 percent as compared to the 2005-06 fiscal year. Although local governments are not statutorily required to maintain a specified level of unassigned and assigned/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 738 entities (or 54 percent of reports reviewed) experienced net losses when both governmental and proprietary funds were taken into account for the 2010-11 fiscal year, as compared to 556 entities (or 47 percent of reports reviewed) for the 2005-06 fiscal year. The most significant changes were reported by counties and municipalities, where the percentage of entities that experienced net losses grew from 32 percent to 73 percent for counties and from 37 percent to 55 percent for municipalities when comparing the 2005-06 to the 2010-11 fiscal year. Since the percentage of entities reporting net deficit unassigned and assigned/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, 107 (or 8 percent of reports reviewed) also reported net deficit unassigned and assigned/unrestricted fund equities as of September 30, 2011. This is a 53 percent increase compared to the fiscal year ended September 30, 2006. Continued excess expenditures over revenues and deficit unassigned and assigned/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 unassigned and assigned/unrestricted fund equity, revenue, and expenditure information, by entity, is available on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen) (click on Local Government/Nonprofit/For-Profit, Local Governmental Entity Financial Condition Assessment Procedures, INSTRUCTIONS-EXCEL).

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<sup>2</sup> For comparison purposes, unassigned/assigned fund balance classification pursuant to GASB Statement No. 54 is similar to unreserved fund balance used in prior reports.

Table 6<sup>3</sup>

Condition	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2002	2006	2011	2002	2006	2011	2002	2006	2011	2002	2006	2011
Number of reports reviewed.	66	66	66	386	386	377	487	743	925	939	1,195	1,368
Reported net deficit total unassigned and assigned/unrestricted fund equity.	0	2	1	13	7	7	47	39	120	60	48	128
Reported no unassigned and assigned/unrestricted fund equity.	0	0	0	0	1	1	36	71	74	36	72	75
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	52	35	55	266	229	279	264	402	490	582	666	824
Experienced net losses when both governmental and proprietary funds were taken into account.	46	21	48	171	142	206	252	393	484	469	556	738
Experienced net losses and reported net deficit unassigned and assigned/unrestricted fund equity.	0	0	1	6	4	7	38	66	99	44	70	107

Source: Audit reports and annual financial reports

**Other Trends**

A total of 125 audited entities (16 municipalities, and 109 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2011, as compared to 98 as of September 30, 2006. Of these, 75 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 43 for the 2005-06 fiscal year. In addition, 60 special districts reporting via annual financial reports, reported cash and investments in amounts not sufficient to cover current liabilities as of September 30, 2011. 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.

<sup>3</sup> Table 6 includes 49 special districts and 1 municipality that reported no unassigned and assigned/unrestricted fund equity, and 36 special districts that reported deficit unassigned and assigned/unrestricted fund equity, on their 2010-11 fiscal year annual financial reports. Table 6 also includes 88 special districts and 3 municipalities that reported losses in either governmental or proprietary funds, and reported net losses when both governmental and proprietary funds were considered, on their 2010-11 fiscal year annual financial reports. For the 2001-02 and 2005-06 fiscal years, pre-GASB 54 terminology was used for the fund equity amounts. For these years, unreserved/unrestricted fund equity was used.

Long-term debt reported for governmental activities totaled \$30.3 billion as of September 30, 2011, an increase of \$4 billion, or 15 percent, compared to \$26.3<sup>4</sup> billion as of September 30, 2006, for entities from which we received audit reports for both 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 2010-11 fiscal year resulting in decreased taxes and other revenues. 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.

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## **SIGNIFICANT FINDINGS**

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### **Modified Audit Opinions**

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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 7, 34 of the 1,527<sup>5</sup> audit reports reviewed (including 388 county agencies, 370 municipalities, and 769 special districts) for the 2010-11 fiscal year contained modified opinions.

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<sup>4</sup> The amount of long-term debt reported as of September 30, 2006, differs from the amount reported in report No. 2008-175 because entities that became inactive since September 30, 2006, were not included in this total.

<sup>5</sup> Includes all 2010-11 fiscal year audit reports submitted to us as of July 18, 2012.

Table 7

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		
City of Crestview	X		
Town of Cross City	X		
City of Fanning Springs	X		
Town of Gulf Stream	X		
Town of Hastings	X		
Town of Inglis	X		
Town of Lake Hamilton			X
Town of Otter Creek	X		
City of South Bay		X	
City of Valparaiso	X		
Town of Yankeetown	X		
Big Bend Water Authority	X		
Concorde Estates Community Development District		X	
Creekside Community Development District	X		
Fiddler's Creek Community Development District	X		
Gramercy Farms Community Development District		X	
Meadow Point IV Community Development District		X	
New River Public Library Cooperative	X		
Parklands Lee Community Development District		X	
River Glen Community Development District	X		
Riverwood Estates Community Development District		X	
South Bay Community Development District	X		
Spring Ridge Community Development District		X	
St. Augustine Port, Waterway and Beach District	X		
Sterling Hill Community Development District		X	
Villages of Bloomingdale Community Development District		X	
World Commerce Community Development District	X		

Source: Audit reports

The number of reports that included qualified opinions increased from 22 in the prior fiscal year to 24 for the 2010-11 fiscal year, or 9 percent. The qualified opinions were issued for not implementing the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; 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 number of reports that included adverse opinions increased from 2 in the prior fiscal year to 9 for the 2010-11 fiscal year, or 350 percent, due primarily to entities excluding component units from their financial statements. Other reasons for adverse opinions included inadequate documentation to support capital assets and the exclusion of land held for resale 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, which is consistent with the prior fiscal year audit for that entity.

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### Classification of Audit Findings

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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 1,527 audit reports reviewed, 200 (13 percent) reported a significant deficiency(ies), and 211 (14 percent) reported a material weakness(es). The significant deficiencies and material weaknesses reported were primarily in the categories of separation of duties, general accounting records, and financial reporting.

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### Significant Deficiencies and Other Audit Findings

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We established categories of findings and classified the various audit findings included in the county, municipality, or special district audit reports accordingly. Although the number of audit reports reviewed in the 2010-11 fiscal year increased by 2 percent, the total number of audit findings decreased by 15 percent as compared to the prior fiscal year.

Summaries of the predominant and most significant audit findings included in audit reports reviewed for 388 county agencies, 370 municipalities, and 769 special districts for the 2010-11 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 B.

**Separation of Duties.** For 57 (15 percent) of the county agency reports, 69 (19 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 11 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 8 (2 percent) of the county agency reports, 28 (8 percent) of the municipality reports, and 14 (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 3 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 13 (3 percent) of the county agency reports, 43 (12 percent) of the municipality reports, and 32 (4 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 6 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 sheriff that did not execute budget amendments prior to incurring expenditures in excess of the original budget; a municipality's budget that did not include the previous year's final fund equity balance; and a special district that did not formally adopt its budget by resolution. 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 36 (9 percent) of the county agency reports, 86 (23 percent) of the municipality reports, and 53 (7 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 11 percent of all reports and a 3 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples included tax collection reports generated by a tax collector's new tax roll system that could not be reconciled to tax distributions; a municipality with outdated accounting software that required manual calculations, spreadsheets, and applications independent of the financial system; and a special district that did not maintain general ledgers for several funds. 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 43 (11 percent) of the county agency reports, 73 (20 percent) of the municipality reports, and 71 (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 12 percent of all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a board of county commissioners that did not correctly classify financial statement line items; a municipality that did not have internal controls in place to ensure that accurate reports were provided to the governing body on a timely basis; and a special district that did not timely file its annual financial report with the Florida Department of Financial Services. 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 14 (4 percent) of the county agency reports, 29 (8 percent) of the municipality reports, and 14 (2 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 4 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 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 board of county commissioners that misplaced a \$1,500 child support payment; a municipality that accumulated bank statements for several months before they were reconciled; and a special district that owned a bank account that was not listed in its legal name. Cash accountability problems increase the risk that unauthorized disbursements or losses of cash could occur without being promptly detected.

**Capital Assets.** For 21 (5 percent) of the county agency reports, 51 (14 percent) of the municipality reports, and 25 (3 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements

pertaining to acquisitions or disposals of capital assets or the improper use of, and lack of accountability for, capital assets. This represents 6 percent of all reports and a 3 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, improper acquisitions of capital assets, and unauthorized disposals of capital assets. Examples included a board of county commissioners that did not properly capitalize the cost of interest related to borrowings on construction in progress; a municipality that had inaccurate depreciation calculations; and a special district that did not receive an appraisal for land that was purchased. Capital asset accountability problems affect an entity's ability to demonstrate that it has acquired or disposed of capital assets in an efficient and appropriate manner and safeguarded its capital assets, and increase the risk that such assets could be misappropriated without being promptly detected.

**Revenues/Collections.** For 31 (8 percent) of the county agency reports, 67 (18 percent) of the municipality reports, and 28 (4 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 8 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 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 tax collector that accepted cash payments after the close of business that were not immediately processed using the validating machine; a municipality that had large undocumented variances between the amounts of water pumped and the amounts billed for water usage; and a special district that did not use prenumbered receipts for collection of impact fees and other revenue sources. 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 21 (5 percent) of the county agency reports, 44 (12 percent) of the municipality reports, and 18 (2 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 5 percent of all reports and is a 2 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 supervisor of elections whose salary payments exceeded the statutory amount; a municipality that paid certain employees 112 hours biweekly regardless of the hours actually worked; and a special district that did not compute Social Security and Medicare taxes correctly and underpaid its payroll taxes by \$26,876. 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 22 (6 percent) of the county agency reports, 51 (14 percent) of the municipality reports, and 12 (2 percent) of the special district reports, findings were noted regarding procurement of goods or services, or contract or grant management. This represents 6 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 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 monitor administrative expenditures and therefore was unable to determine if administrative expenditures exceeded

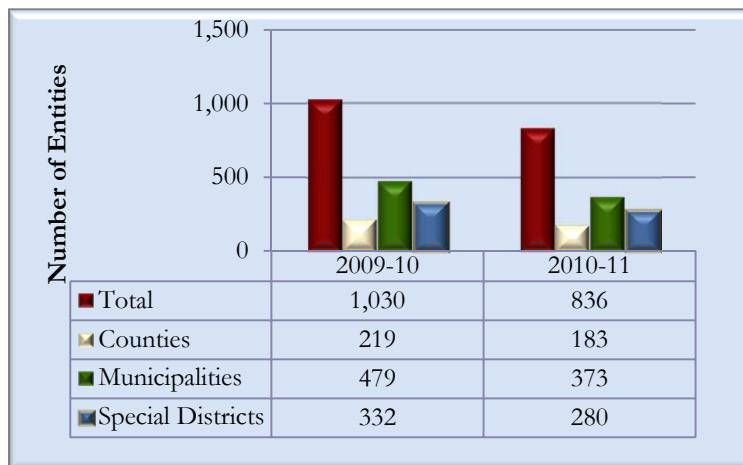
the allowed amounts per various grant contracts; a municipality with purchase orders for construction contracts that did not agree to the awarded bid amounts; and a special district that entered into a contract with unclear terms. Purchasing/contract management problems affect an entity’s ability to 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 10 (3 percent) of the county agency reports, 31 (8 percent) of the municipality reports, and 26 (3 percent) of the special district reports, findings were noted regarding the expenditure of public funds. 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. These findings included expenditures/expenses that were not properly documented, approved, or recorded; could be made more efficiently; or were not made in accordance with laws, rules, ordinances, or other guidelines. Examples included a board of county commissions that had expenditures over \$435,000 paid to related parties without review by the oversight board; a municipality that paid certain invoices twice; and a special district with invoices that lacked documentation of management’s payment authorization. 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 2,015 findings included in audit reports reviewed, 836 (41 percent) did not include one or more of the required elements. Table 8 presents the total number of insufficiently detailed findings reported for the last two fiscal years.

**Table 8  
Insufficiently Detailed Findings**



Source: Auditor General

Although the total percentage of insufficiently detailed findings for the 2010-11 fiscal year decreased from 43 to 41 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.

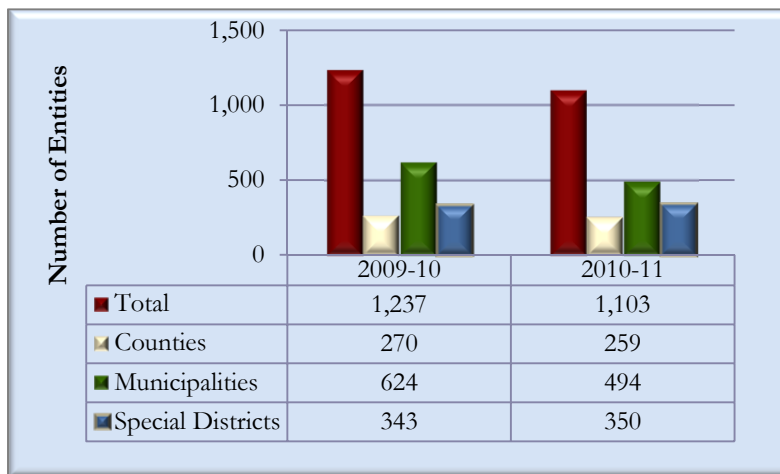
- A proper perspective for judging the prevalence and consequences of the finding, such as whether the findings represent an isolated instance or a systemic problem (e.g., the number of records examined and the quantity or dollar value of deficiencies noted).

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 2010-11 fiscal year were also included in audit reports for the 2009-10 and 2008-09 fiscal years. Of the 2,015 findings included in 2010-11 fiscal year audit reports reviewed, 1,103 (55 percent) were repeated from the 2009-10 fiscal year audit reports. As shown in Table 9, there was a decrease in the total number of repeated prior fiscal year findings for the 2010-11 fiscal year compared to the 2009-10 fiscal year; however, the percentage of repeated prior year findings to total findings increased from 52 to 55 percent. Of the 2,015 findings included in the 2010-11 fiscal year audit reports, 793 (39 percent) were also repeated from the 2008-09 fiscal year audit reports.

**Table 9  
Repeated Prior Fiscal Years Findings**



Source: Audit reports

Pursuant to Section 218.39(8), Florida Statutes, beginning with audit reports filed for the 2010-11 fiscal year, we must notify the Legislative Auditing Committee of local governmental entities that failed to take full corrective action in response to one or more recommendations included in the two preceding financial audit reports. The 2010-11 fiscal year audit reports for 393 local governmental entities (94 county agencies, 157 municipalities, and 142 special districts) included the 793 audit findings that were also included in the entities' 2009-10 and 2008-09 fiscal year audit reports.

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

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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 2010-11 fiscal year audit reports for 66 counties (which included 388 individual county agency reports), 370 municipalities, and 769 special districts prepared by independent CPAs and submitted to us by July 18, 2012. The scope also included 7 municipality and 158 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 August 24, 2012, 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.

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**AUTHORITY**

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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, 2011.



David W. Martin, CPA  
Auditor General

**EXHIBIT A**  
**FINANCIAL INDICATORS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Financial Indicator	Warning Trend
Unassigned and Assigned 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.
Unassigned and Assigned 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.
Unassigned and Assigned 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 PREDOMINANT AND SIGNIFICANT AUDIT FINDINGS**  
**BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2011**

Category	Counties		Municipalities		Special Districts		Total	
	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011
<b><i>Separation of Duties</i></b> – Findings related to inadequate separation of duties	58	57	74	69	45	45	177	171
<b><i>Policies and Procedures</i></b> – Findings related to general lack of policies and procedures	7	8	32	28	16	14	55	50
<b><i>Budget Administration</i></b> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	16	13	52	43	36	32	104	88
<b><i>General Accounting Records</i></b> – 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)	44	36	101	86	70	53	215	175
<b><i>Financial Reporting</i></b> – Findings related to reporting of financial data externally or within the local governmental entity	49	43	81	73	59	71	189	187
<b><i>Cash</i></b> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	18	14	38	29	25	14	81	57
<b><i>Capital Assets</i></b> - Findings related to noncompliance with legal requirements pertaining to acquisition or disposal of capital assets and the improper use of, and lack of accountability for, capital assets	18	21	80	51	34	25	132	97
<b><i>Revenues/Collections</i></b> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	29	31	81	67	33	28	143	126
<b><i>Payroll and Personnel Administration</i></b> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	18	21	63	44	20	18	101	83
<b><i>Purchasing/Contract Management</i></b> - Findings related to problems with procurement of goods or services and contract or grant management	32	22	71	51	26	12	129	85
<b><i>Expenditures/Expenses</i></b> - Findings related to the expenditure of public funds	19	10	42	31	21	26	82	67