

**REPORT ON SIGNIFICANT FINANCIAL
TRENDS AND FINDINGS
IDENTIFIED IN LOCAL GOVERNMENTAL
ENTITY 2011-12 FISCAL YEAR
AUDIT REPORTS
AND
ANNUAL FINANCIAL REPORTS**



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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY 2011-12 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 2011-12 fiscal year.

Significant Financial Trends

- Of the local governmental entities that submitted 2011-12 fiscal year audit reports to us as of November 30, 2013, 90 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.
- Many local governmental entities are experiencing deteriorating financial conditions. A total of 91 local governmental entities were reported as experiencing deteriorating financial conditions. In addition, our examination of financial information 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; 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 2003, there has been a significant decrease over the past six years. Since 2006, taxable property values have decreased by approximately \$361 billion (22 percent) and \$178 billion (21 percent) for counties and municipalities, respectively. Taxes levied decreased by approximately \$2.7 billion (30 percent) and \$737 million (19 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.
- Of the 363 local governmental entity local pension plans (i.e., not part of the Florida Retirement System) that reported a funded ratio as of October 1, 2011, 235 (65 percent) had a funded ratio under 80 percent and 61 (17 percent) had a funded ratio under 60 percent.

Significant Findings

- Certain types of findings were frequently included in county, municipality, and special district audit reports. Of the 1,506 audit reports reviewed for the 2011-12 fiscal year, 200 (13 percent) reported a significant deficiency(ies) and 231 (15 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 1,855 findings included in 2011-12 fiscal year audit reports reviewed, 748 (40 percent) were also included in the 2009-10 and 2010-11 fiscal years audit reports.

¹ All statutory references are to the 2012 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 (1) 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 or (2) a fund balance deficit in total or for that portion of a fund balance not classified as restricted, committed, or nonspendable, or a total or unrestricted net assets deficit, as reported on the fund financial statements for which sufficient resources of the local governmental entity, as reported on the fund financial statements, are not available to cover the deficit. 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)(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.

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 218.39(8), Florida Statutes, requires that we notify the Legislative Auditing Committee of local governmental entity audit reports that indicate that the local government failed to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports.

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 financial trends and findings 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

Potential Financial Emergencies

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 uncontested claims from creditors within 90 days due to lack of funds; failure to transfer to the appropriate agencies, due to lack of funds, employee income taxes withheld or employer/employee contributions for Federal social security or an employee pension, retirement, or benefit plan; and failure to pay wages and salaries to employees due to a lack of funds. Section 10.554(1)(i)7.a., Rules of the Auditor General², requires the auditor to state in the management letter whether or not the local governmental entity met one or more of the specified conditions.

Our review of the 2011-12 fiscal year local governmental entity audit reports prepared by independent CPAs and received by us as of November 30, 2013, disclosed that a total of 90 entities (1 municipality and 89 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. Table 1 shows the number of local governmental entities reported as meeting one or more of the specified conditions for each of the past four fiscal years:

Table 1

Financial Emergency Condition	Fiscal Year			
	2011-12	2010-11	2009-10	2008-09
Number of local governmental entities reported as meeting one or more of the below conditions.	90	92	86	35
Failure to pay short-term loans or make bond debt service payments when due as a result of lack of funds.	86	89	81	30
Failure to pay uncontested claims from creditors within 90 days due to lack of funds.	17	19	17	10
Failure to transfer to the appropriate agencies, due to lack of funds, employee income taxes withheld or employer/employee contributions for Federal social security or an employee pension, retirement, or benefit plan.	1	0	0	0
Failure to pay wages and salaries to employees due to lack of funds.	0	0	0	0

Source: Audit reports

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 90 entities reported as meeting one or more of the conditions as of September 30, 2012, 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, 2012, we also reported to the Legislative Auditing Committee and the Governor a total of 3 special

² All Rules of the Auditor General references are to those effective September 30, 2012, except when otherwise noted.

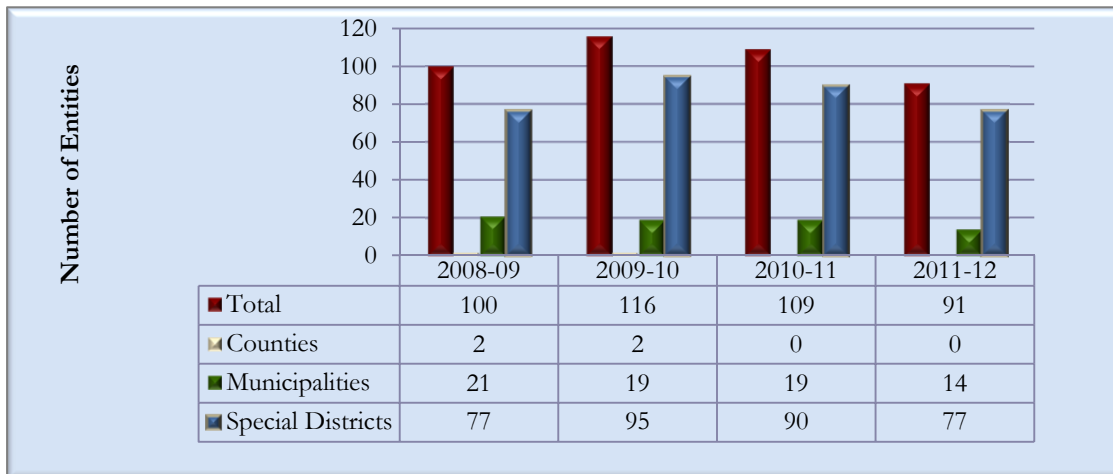
districts for which either the notes to the financial statements or the auditors indicated a condition in Section 218.503(1), Florida Statutes, was met subsequent to September 30, 2012.

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.2., 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 91 entities (14 municipalities and 77 special districts) as experiencing deteriorating financial conditions as of September 30, 2012. Table 2 shows the number of local governmental entities reported as experiencing deteriorating financial conditions for the past four fiscal years:

Table 2



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 nonhomestead properties, and required millage rate reductions/limitations. Additionally, market values of real property have declined as a result of the housing crisis.

As noted in prior fiscal years, we found that, on average, lesser-populated counties had higher 2012 millage rates than higher-populated counties and higher-populated municipalities had higher 2012 millage rates than lower-populated municipalities, as shown in Table 3.

Table 3

Counties		Municipalities	
Population Range	Average 2012 Millage	Population Range	Average 2012 Millage
< 25,000	8.7428	< 1,000	3.1055
25,000 – 74,999	7.3657	1,000 – 2,999	4.9413
75,000 – 224,999	5.5580	3,000 – 9,999	4.4624
225,000 – 674,999	5.7811	10,000 – 24,999	4.8424
675,000 +	4.9979	25,000 – 99,999	5.1739
		100,000 +	6.2349

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

For 2012, the average ad valorem millage rate was 6.7232 for counties and 4.5917 for municipalities. The average millage rate has decreased 11 percent for counties and increased 5 percent for municipalities since 2003. 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 4 and 5.

Table 4

Counties			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
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	\$8,928,231,811
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	\$1,331,000,184,069	\$6,563,758,622
2011	6.5857	\$1,283,395,747,554	\$6,217,195,940
2012	6.7232	\$1,274,129,214,427	\$6,226,308,983

Table 5

Municipalities			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
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	\$697,303,250,081	\$3,253,881,973
2011	4.4754	\$670,933,673,115	\$3,160,580,722
2012	4.5917	\$672,164,583,098	\$3,210,789,207

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

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

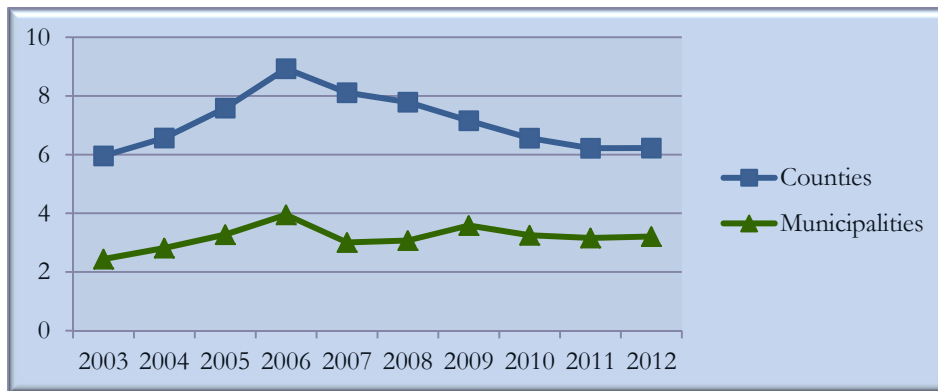
Average millage rates for counties have increased in each of the past five years, and average millage rates for municipalities have increased in each of the past four years. As shown in Tables 6 and 7, although there is an overall increase in the taxable property values and taxes levied since 2003, there has been a significant decrease in taxable property values and taxes levied since 2006. Taxable property values have decreased by approximately \$361 billion (22 percent) and \$178 billion (21 percent) for counties and municipalities, respectively, over the past six years. Taxes levied have decreased by approximately \$2.7 billion (30 percent) and \$737 million (19 percent) for counties and municipalities, respectively, over the same period.

Table 6
Taxable Property Values
(In trillions)



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

Table 7
Taxes Levied
(In billions)



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

Pension Plans

Historically, the use of defined benefit pension plans, where specified pension benefits are provided to retirees, has been prevalent in the public sector. The Government Finance Officers Association (GFOA) issues best practices to communicate enhanced techniques and provide information about effective strategies regarding public finance for state and local governments. The GFOA, in its best practice publication entitled *Sustainable Funding Practices of Defined Benefit Pension Plans*, indicates that a fundamental financial objective of a public employee defined benefit pension plan is to fund the long-term cost of benefits promised to plan participants. It is widely acknowledged that the appropriate way to attain reasonable assurance that pension benefits will remain sustainable is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. Long-term funding is accomplished through contributions from the employer and employee, and from investment earnings, which typically provide the largest component of funding.

Of the 1,184 local governmental entity 2011-12 fiscal year audit reports submitted to us as of July 26, 2013, 515 reported the existence of one or more employee defined benefit pension plans, including 66 counties, 284 municipalities, and 165 special districts. Employee defined benefit pension plans reported include plans for general employees, firefighters, police officers, or some combination thereof (mixed).

The 515 local governmental entities reporting employee defined benefit pension plans included 358 local governmental entities (66 counties, 151 municipalities, and 141 special districts) that were participants in the Florida Retirement System. In addition, 212 local governmental entities had a total of 389 local pension plans (i.e., not part of the Florida Retirement System), including 3 county firefighter plans, 356 municipal plans (105 for general employees, 95 for firefighters, 115 for police officers, and 41 mixed), and 30 special district plans (12 for general employees and 18 for firefighters).

The funding status of employee defined benefit pension plans has been a concern in recent years, particularly due to the recent economic crisis. A pension plan's funded ratio is the percentage of a plan's liabilities that are covered by its assets. GFOA recommends that governments adopt funding policies that target a 100 percent or more funded ratio. Additionally, the Federal Pension Protection Act of 2006 provides that large private sector pension plans will be considered at risk of defaulting on their liabilities if they have less than 80 percent funded ratios under standard actuarial assumptions and less than 70 percent funded ratios under certain "worst-case" actuarial assumptions.

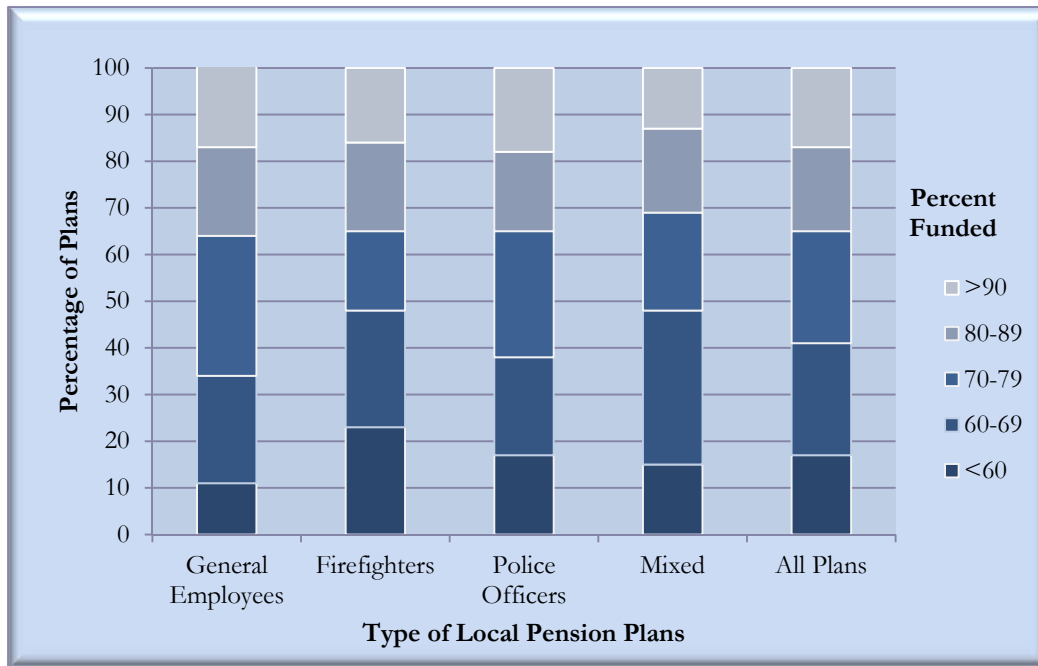
From July 1, 2007, to July 1, 2011, the funded ratio for the Florida Retirement System declined from 106 percent to 87 percent. From October 1, 2007, to October 1, 2011, the average funded ratio for local pension plans declined from 83 percent to 74 percent³ for the 346 plans for which funded ratios were reported both as of October 1, 2007, and October 1, 2011. The decline in funded ratios reported is due, at least in part, to the economic crisis, resulting in a significant decline in the financial markets from September 2008 to March 2009, which, in turn, would have negatively affected the funded status of pension plans.

For 363⁴ local pension plans for which funded ratios were reported as of October 1, 2011, the average funded ratio was 75 percent. As shown in Table 8, 65 percent (235 plans) of the 363 local pension plans reported a funded ratio under 80 percent as of October 1, 2011.

³ The funded ratios for local plans used in this report were derived from local governmental entity audit reports submitted to us for the 2007-08 through 2011-12 fiscal years. While the majority of the ratios reported were as of October 1, there are some entities that reported funded ratios as of other dates during the fiscal year. Additionally, there were some local governmental entities that reported funded ratios as of October 1, 2012, in their 2011-12 fiscal year audit reports.

⁴ Of the 363 local pension plans for which funded ratios were reported as of October 1, 2011, 17 did not report funded ratios as of October 1, 2007.

**Table 8
Local Pension Plan Funded Ratio as of October 1, 2011**



Source: Audit reports

Table 8 also indicates that 17 percent (61 plans) of the 363 local pension plans, reported funded ratios less than 60 percent as of October 1, 2011. A list of local governmental entities that reported local pension plans with funded ratios of less than 60 percent is included as Exhibit A.

Other Financial Trends

Our examination of trends using financial and other information obtained for the counties, municipalities, and special districts evaluated for the 2002-03 through 2011-12 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 99 percent of the applicable local governments implemented GASB Statement No. 54 for the fiscal year ending September 30, 2012.

As shown in Table 9, 111 entities reported deficit unassigned and assigned⁵/unrestricted fund equities as of September 30, 2012, an increase of 185 percent as compared to the 2006-07 fiscal year and a decrease of 13 percent as compared to the 2010-11 fiscal year. Although local governments are not statutorily required to maintain a specified

⁵ For comparison purposes, unassigned/assigned fund balance classification pursuant to GASB Statement No. 54 is similar to unreserved fund balance used in prior reports.

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 723 entities (or 53 percent of reports reviewed) experienced net losses when both governmental and proprietary funds were taken into account for the 2011-12 fiscal year, as compared to 619 entities (or 47 percent of reports reviewed) for the 2006-07 fiscal year and 738 entities (or 54 percent of reports reviewed) for the 2010-11 fiscal year. The most significant changes were reported by counties, where the percentage of entities that experienced net losses grew from 52 percent to 71 percent when comparing the 2006-07 to the 2011-12 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 from 2011-12 fiscal year operations, 95 (or 7 percent of reports reviewed) also reported net deficit unassigned and assigned/unrestricted fund equities as of September 30, 2012. This is a 9 percent increase compared to the fiscal year ended September 30, 2007 and an 11 percent decrease compared to the fiscal year ended September 30, 2011. 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.

Table 9⁶

Condition	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2003	2007	2012	2003	2007	2012	2003	2007	2012	2003	2007	2012
Number of reports reviewed.	65	66	66	389	379	376	535	881	931	989	1,326	1,373
Reported net deficit total unassigned and assigned/unrestricted fund equity.	0	0	0	13	9	6	52	30	105	65	39	111
Reported no unassigned and assigned/unrestricted fund equity.	0	0	0	0	1	0	39	162	74	39	163	74
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	52	42	56	276	251	281	311	415	500	639	708	837
Experienced net losses when both governmental and proprietary funds were taken into account.	41	34	47	204	174	185	304	411	491	549	619	723
Experienced net losses and reported net deficit unassigned and assigned/unrestricted fund equity.	0	0	0	8	7	5	36	80	90	44	87	95

Source: Audit reports and annual financial reports

Other Trends

A total of 100 audited entities (13 municipalities, and 87 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2012, as compared to 87 as of September 30, 2007, and 125 as of September 30, 2011. 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, 2012. 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.

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

⁶ Table 9 includes 52 special districts that reported no unassigned and assigned/unrestricted fund equity, and 26 special districts that reported deficit unassigned and assigned/unrestricted fund equity, on their 2011-12 fiscal year annual financial reports. Table 9 also includes 91 special districts and 5 municipalities that reported losses in either governmental or proprietary funds, and 91 special districts and 4 municipalities that reported net losses when both governmental and proprietary funds were considered, on their 2011-12 fiscal year annual financial reports. For the 2002-03 and 2006-07 fiscal years, pre-GASB 54 terminology was used for the fund equity amounts. For these years, unreserved/unrestricted fund equity was used.

auditor does not express an opinion. As shown in Table 10, 42 of the 1,506⁷ audit reports reviewed (including 388 county agencies, 367 municipalities, and 751 special districts) for the 2011-12 fiscal year contained modified opinions.

The number of reports that included qualified opinions increased from 24 in the prior fiscal year to 27 for the 2011-12 fiscal year, a 13 percent increase. 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; lack of sufficient evidence for expenditures; and not preparing an operating budget for the entity's General Fund. The number of reports that included adverse opinions increased from 9 in the prior fiscal year to 15 for the 2011-12 fiscal year, a 67 percent increase, due primarily to entities excluding component units from their financial statements; but also due to the exclusion of land held for resale from the entity's financial statements. There were no reports that included a disclaimer of opinion.

⁷ Includes all 2011-12 fiscal year audit reports submitted to us as of July 26, 2013.

Table 10

Entity Name	Qualified Opinion	Adverse 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	
Altha, Town of	X	
Callahan, Town of	X	
Chiefland, City of	X	
Cross City, Town of	X	
Fanning Springs, City of	X	
Gulf Stream, Town of	X	
Hastings, Town of	X	
Inglis, Town of	X	
Mangonia Park, Town of	X	
Pahokee, City of	X	
South Bay, City of	X	
Valparaiso, City of	X	
Yankeetown, Town of	X	
Big Bend Water Authority	X	
Chapel Creek Community Development District		X
Concorde Estates Community Development District		X
Cordoba Ranch Community Development District	X	
Dorcas Fire District	X	
Escambia County Law Library	X	
Glen St. Johns Community Development District		X
Gramercy Farms Community Development District		X
Lakeside Landings Community Development District		X
Landmark at Doral Community Development District		X
Meadow Point IV Community Development District		X
Montecito Community Development District	X	
New River Public Library Cooperative	X	
Portofino Isles Community Development District		X
Portofino Vista Community Development District	X	
Reunion West 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
Trails Community Development District		X
Villa Vizcaya Community Development District		X
Waterstone Community Development District		X

Source: Audit reports

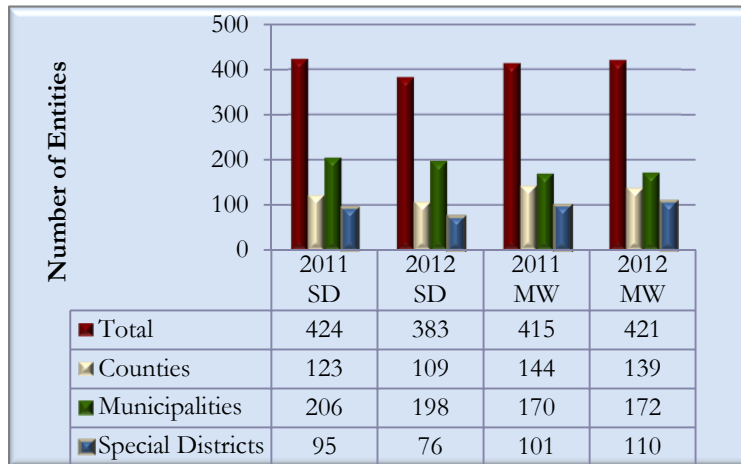
Classification of Audit Findings

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 1,506 audit reports reviewed, 200 (13 percent) reported a significant deficiency(ies), and 231 (15 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.

Of the 1,855 findings included in audit reports reviewed, 383 (21 percent) were considered significant deficiencies and 421 (23 percent) were considered material weaknesses. In addition, as shown in Table 11, the number of significant deficiencies decreased by 41 (from 424 to 383, or 10 percent) but the number of material weaknesses increased by 6 (from 415 to 421, or 1 percent) compared to the prior fiscal year.

Table 11
Number of Findings Classified as Significant Deficiencies (SD) and Material Weaknesses (MW)



Source: Auditor General

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. The number of audit reports reviewed in the 2011-12 fiscal year decreased by 1 percent and the total number of audit findings decreased by 8 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, 367 municipalities, and 751 special districts for the 2011-12 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 60 (15 percent) of the county agency reports, 62 (17 percent) of the municipality reports, and 40 (5 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 the same percentage of reports with similar findings compared to the prior fiscal year. Inadequate separation of duties or responsibilities increases the possibility that errors or irregularities may occur and not be detected on a timely basis and diminishes the local governmental entity's ability to properly safeguard assets. Many of these involved instances in which the county agencies, municipalities, and special districts contended that their staffs were small and it was not feasible economically to further separate duties or responsibilities. However, there were several instances in which the auditor recommended that the county agency, municipality, or special district reassign duties and responsibilities or establish compensating controls.

Policies and Procedures. For 12 (3 percent) of the county agency reports, 28 (8 percent) of the municipality reports, and 13 (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 increase 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, 35 (10 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 6 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 sheriff whose budget was not timely adopted; a municipality whose final budgeted amounts in its accounting system did not agree to the actual final amended budget; and a special district that failed to post the final adopted budget on the district's official Web site within 30 days after adoption. 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 45 (12 percent) of the county agency reports, 83 (23 percent) of the municipality reports, and 52 (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 12 percent of all reports and 1 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a board of county commissioners whose accounting software did not provide an electronic means to record and account for encumbrances; a municipality that did not perform timely reconciliations for various general ledger accounts; and a special district that did not use the uniform chart of accounts as provided by the Florida Department of Financial Services. 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 52 (13 percent) of the county agency reports, 74 (20 percent) of the municipality reports, and 70 (9 percent) of the special district reports, findings were noted relating to the reporting of financial data either externally or within the local governmental entity. This represents 13 percent of all reports and a 1 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a supervisor of elections that did not file its Public Depositor Annual Report to the Chief Financial Officer; a municipality that did not include the Management Discussion and Analysis to supplement its financial statements; and a special district that

failed to include component unit financial statements in its financial statements. 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 13 (3 percent) of the county agency reports, 36 (10 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 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 sheriff that had a significant number of outstanding checks more than two years old; a municipality that had several checks made out to "cash;" and a special district that provided the tax collector incorrect bank account information that caused tax assessments to be deposited in a bank account not belonging to the district. 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, 50 (14 percent) of the municipality reports, and 31 (4 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 7 percent of all reports and a 1 percent increase 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 remove sold tangible personal property items from its inventory listing; a municipality with property records that lacked sufficient information necessary to properly identify the assets; and a special district that utilized an Excel spreadsheet to record and track buildings and related depreciation rather than the district's fixed asset software. 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 27 (7 percent) of the county agency reports, 64 (17 percent) of the municipality reports, and 22 (3 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 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 tax collector that did not issue warrants for delinquent personal property taxes; a municipality that did not always deposit cash receipts on a daily basis; and a special district that failed to bill its customers timely for services rendered. 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 19 (5 percent) of the county agency reports, 40 (11 percent) of the municipality reports, and 8 (1 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 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 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 clerk of the circuit court who gave all employees with more than six months of service three percent of their annual salary as a lump sum payment prior to leaving office; a municipality that had personnel files lacking various required forms; and a special district that paid the employees' portions of Florida Retirement System contributions but did not report these payments as additional taxable compensation on employee W-2 forms. 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.

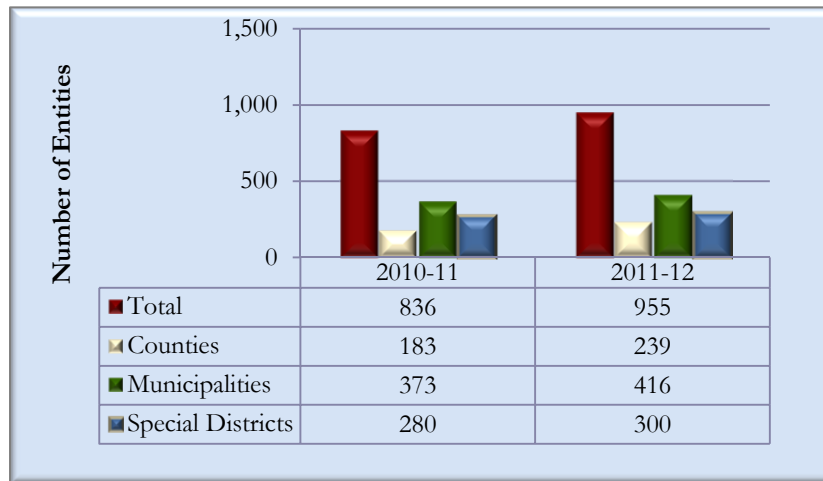
Purchasing/Contract Management. For 13 (3 percent) of the county agency reports, 40 (11 percent) of the municipality reports, and 16 (2 percent) of the special district reports, findings were noted regarding procurement of goods or services, or contract or grant management. This represents 5 percent 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 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 had procurement card purchases that appeared to be split purchases to avoid required competitive procurement policies; a municipality that used multiple vendors with the same address; and a special district that did not demonstrate that a competitive bid process was used. 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 9 (2 percent) of the county agency reports, 27 (7 percent) of the municipality reports, and 22 (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 the same percentage of reports with similar findings compared to the prior fiscal year. These findings included expenditures/expenses that were not properly documented, approved, or recorded; could be made more efficiently; or were not made in accordance with laws, rules, ordinances, or other guidelines. Examples included a sheriff that issued a check with only one authorized signature, contrary to office policy; a municipality that did not pay invoices within 45 days, contrary to Florida Statutes; and a special district that paid sales tax on purchases for which the special district was exempt. 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 1,855 findings included in audit reports reviewed, 955 (51 percent) did not include one or more of the required elements. Table 12 presents the total number of insufficiently detailed findings reported for the last two fiscal years.

Table 12
Insufficiently Detailed Findings



Source: Auditor General

The total percentage of insufficiently detailed findings for the 2011-12 fiscal year increased from 41 to 51 percent compared to the prior fiscal year and 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.

Uncorrected Audit Findings

Pursuant to Section 218.39(8), Florida Statutes, 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. Of the 1,855 audit findings reported in 2011-12 fiscal year audit reports, 748 (40 percent) audit findings for 381 local governmental entities (89 county agencies, 142 municipalities, and 150 special districts) were also included in the entities’ 2010-11 and 2009-10 fiscal year audit reports.

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 2011-12 fiscal year audit reports for 66 counties (which included 388 individual county agency reports), 367 municipalities, and 751 special districts prepared by independent CPAs and submitted to us by July 26, 2013. The scope also included 9 municipality and 180 special district annual financial reports submitted to the 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 September 23, 2013, 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 included 1,184 entities (66 counties, 367 municipalities, and 751 special districts) in our analysis of significant financial trends (except for Table 9, where we also included annual financial reports for 9 municipalities and 180 special districts). We included 1,506 entities (388 county agencies, 367 municipalities, and 751 special districts) in our analysis of significant 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, 2012.



David W. Martin, CPA
Auditor General

**EXHIBIT A
LOCAL PENSION PLANS WITH FUNDED RATIOS LESS THAN 60 PERCENT
AS OF OCTOBER 1, 2011**

GENERAL EMPLOYEES PENSION PLANS	Percent Funded
MUNICIPALITIES	
Cape Coral, City of	57.51
Coral Gables, City of	53.00
Fernandina Beach, City of	57.85
Fort Myers, City of	55.73
Hollywood, City of	59.60
Lake Worth, City of	59.10
Longboat Key, Town of	53.28
Medley, Town of (1)	59.80
Ocala, City of	46.78
Orange Park, Town of (1)	53.76
Sanibel, City of (1)	51.41
Winter Haven, City of	58.87

FIREFIIGHTERS PENSION PLANS	Percent Funded
MUNICIPALITIES	
Cape Coral, City of (1)	57.69
Cocoa Beach, City of (1)	57.17
Cocoa, City of	48.45
Fort Myers, City of	52.16
Fort Walton Beach, City of (1)	58.57
Haines City, City of	58.33
Hollywood, City of	41.70
Lake Wales, City of	56.95
Lake Worth, City of	51.70
Longboat Key, Town of	43.80
Madison, City of (1)	57.45
Milton, City of	48.44
Miramar, City of	56.69
Naples, City of (1)	57.00
New Smyrna Beach, City of (1)	58.79
Ormond Beach, City of (1)	57.97
Oviedo, City of (1)	56.46
Port Orange, City of	42.39

**EXHIBIT A (CONTINUED)
LOCAL PENSION PLANS WITH FUNDED RATIOS LESS THAN 60 PERCENT
AS OF OCTOBER 1, 2011**

FIREFIGHTERS PENSION PLANS	Percent Funded
MUNICIPALITIES (Continued)	
St. Pete Beach, City of	47.85
Temple Terrace, City of (1)	59.39
Venice, City of	45.04
Winter Haven, City of (1)	59.28
SPECIAL DISTRICTS	
Bonita Springs Fire Control and Rescue District	51.00
Destin Fire Control District	47.67
Ocean City/Wright Fire Control District	30.96

POLICE OFFICERS PENSION PLANS	Percent Funded
MUNICIPALITIES	
Bal Harbour Village, Town of	56.20
Cocoa Beach, City of	49.46
Coral Springs, City of	58.00
Fort Myers, City of	46.08
Holly Hill, City of (1)	58.46
Hollywood, City of	56.40
Lake Worth, City of	55.30
Longboat Key, Town of	45.46
Marco Island, City of	48.40
Melbourne, City of (1)	56.20
Miramar, City of	54.40
Naples, City of	54.00
Port Orange, City of	55.36
Sanibel, City of (1)	57.14
St. Pete Beach, City of	56.54
Sunrise, City of	53.50
Tamarac, City of	54.90
Temple Terrace, City of	47.42

EXHIBIT A (CONTINUED)
LOCAL PENSION PLANS WITH FUNDED RATIOS LESS THAN 60 PERCENT
AS OF OCTOBER 1, 2011

MIXED PENSION PLANS	Percent Funded
MUNICIPALITIES	
Delray Beach, City of	56.50
Fernandina Beach, City of	54.78
Jacksonville, City of	42.84
Largo, City of (1)	59.40
Plant City, City of	51.55
Titusville, City of	58.06

Notes:

- (1) In its 2011-12 fiscal year financial audit report, the entity reported a funded ratio as of October 1, 2012, above 60 percent.

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, 2011 AND 2012

Category	Counties		Municipalities		Special Districts		Total	
	Fiscal Year		Fiscal Year		Fiscal Year		Fiscal Year	
	2011	2012	2011	2012	2011	2012	2011	2012
<i>Separation of Duties</i> – Findings related to inadequate separation of duties	57	60	69	62	45	40	171	162
<i>Policies and Procedures</i> – Findings related to general lack of policies and procedures	8	12	28	28	14	13	50	53
<i>Budget Administration</i> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	13	16	43	35	32	36	88	87
<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)	36	45	86	83	53	52	175	180
<i>Financial Reporting</i> – Findings related to reporting of financial data externally or within the local governmental entity	43	52	73	74	71	70	187	196
<i>Cash</i> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	14	13	29	36	14	14	57	63
<i>Capital Assets</i> - 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	21	21	51	50	25	31	97	102
<i>Revenues/Collections</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	31	27	67	64	28	22	126	113
<i>Payroll and Personnel Administration</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	21	19	44	40	18	8	83	67
<i>Purchasing/Contract Management</i> - Findings related to problems with procurement of goods or services and contract or grant management	22	13	51	40	12	16	85	69
<i>Expenditures/Expenses</i> - Findings related to the expenditure of public funds	10	9	31	27	26	22	67	58