

**REPORT ON SIGNIFICANT FINANCIAL
TRENDS AND FINDINGS IDENTIFIED IN
LOCAL GOVERNMENTAL ENTITY
2013-14 FISCAL YEAR AUDIT REPORTS
AND FINANCIAL REPORTS**



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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY 2013-14 FISCAL YEAR AUDIT REPORTS AND ANNUAL FINANCIAL REPORTS

SUMMARY

This report provides a summary of significant financial trends and findings for the 2013-14 fiscal year that were 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 Department of Financial Services, and other information.

Significant Financial Trends

We reviewed the 1,317 local governmental entity 2013-14 fiscal year audit reports submitted to us as of October 9, 2015, and noted:

- Sixty-seven entities (1 municipality and 66 special districts) were reported as meeting at least one condition described in State law¹ that could cause these entities to be in a state of financial emergency. When compared to the previous 4 fiscal years, this is the least number of entities reported as meeting at least one of these conditions.
- Seventy-three entities (1 county, 16 municipalities, and 56 special districts) were reported as experiencing deteriorating financial conditions. The number of reported entities experiencing deteriorating financial conditions has significantly decreased from that reported for the previous 4 fiscal years.
- Taxable property values and taxes levied in the 2014 calendar year were more than the values and levies in the 2 previous fiscal years. County and municipality taxable property values increased by \$82 billion (6 percent) and \$59 billion (9 percent), respectively, over the previous 10 years. However, county taxes levied decreased by \$641 million (8 percent) and municipality taxes levied increased by \$309 million (9 percent) over the same period.

As of July 31, 2015, 1,280 local governmental entity 2013-14 fiscal year audit reports had been submitted to us. We reviewed these audit reports, as well as 166 local governmental entity 2013-14 fiscal year annual financial reports, and identified certain financial trends for numerous entities that may be indicative of deteriorating financial conditions, including high levels of ad valorem millage rates for lesser-populated counties; insufficient levels of assigned and unassigned fund equity; declining excess revenues over expenditures in governmental funds or decreasing operating incomes (or increasing operating losses) in proprietary funds; and low or declining levels of cash and investments, as compared to current liabilities.

Significant Findings

We reviewed 1,597² local governmental entity (382 county agencies, 373 municipalities, and 842 special districts) 2013-14 fiscal year audit reports submitted to us as of July 31, 2015, and noted that:

¹ Section 218.503(1), Florida Statutes.

² Of the 1,280 audit reports received, 65 were county audit reports that each included separate audits of each county agency. We reviewed the information separately reported for each county agency in the county audit reports received and, therefore, reviewed audit reports related to a total of 1,597 local governmental entities.

- Forty-eight of the 1,597 audit reports contained modified opinions.
- Two hundred fifteen audit reports (13 percent) disclosed one or more material weaknesses and 155 audit reports (10 percent) disclosed one or more significant deficiencies. The material weaknesses and significant deficiencies reported related primarily to inappropriate 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 Rules of the Auditor General.³
- The 2013-14 fiscal year audit reports reviewed contained 1,358 findings or 280 findings (17 percent) fewer than the 1,638 findings included in the 2012-13 fiscal year audit reports. Of the 1,358 findings included in 2013-14 fiscal year audit reports we reviewed, 549 were also included in the 2011-12 and 2012-13 fiscal year audit reports, compared to 675 audit findings reported in the 2012-13 audit reports that were also included in the 2011-12 and 2010-11 fiscal year audit reports. These decreases may be attributed, in part, to the statutory requirement⁴ effective for the 2011-12 fiscal year that requires the Auditor General to 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.

BACKGROUND

One of the local government financial reporting system goals, as set forth in State law,⁵ is 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. In addition, State law⁶ requires local governmental entity audits be performed by independent certified public accountants (CPAs). The independent auditors are to notify local governmental entities of:⁷

- Deteriorating financial conditions that may cause a condition described in State law⁸ to occur if actions are not taken to address such conditions.
- 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. Rules of the Auditor General⁹ require the independent auditor to assess the local governmental entity's financial condition and include management letter recommendations addressing any deteriorating financial conditions disclosed by the audit.

When one or more of the conditions specified in State law¹⁰ has occurred, or will occur if action is not taken to assist the entity, a local governmental entity is to notify the Governor and the Legislative Auditing Committee.¹¹ The local governmental entity's independent auditor is required by Rules of the Auditor

³ Chapter 10.550, Rules of the Auditor General, effective September 30, 2014.

⁴ Section 218.39(8), Florida Statutes.

⁵ Section 11.45(2)(g), Florida Statutes.

⁶ Section 218.39(1), Florida Statutes.

⁷ Section 218.39(5), Florida Statutes.

⁸ Section 218.503(1), Florida Statutes.

⁹ Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, effective September 30, 2014.

¹⁰ Section 218.503(1), Florida Statutes.

¹¹ Section 218.503(2), Florida Statutes.

General¹² to apply appropriate procedures and state in the management letter whether or not the local governmental entity met one or more of the specified conditions.

State Law¹³ provides that we review, in consultation with the Florida 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 specified conditions, we also are required to notify the Governor and the Legislative Auditing Committee. The Governor is responsible for determining whether the local governmental entity needs State assistance to resolve the condition(s) and, if so, the entity is considered to be in a state of financial emergency.

We are also required to notify the Legislative Auditing Committee of local governmental entity audit reports that indicate the local government failed to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports.¹⁴ In addition, we are to 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 obtain an audit.¹⁵

SIGNIFICANT FINANCIAL TRENDS

Potential Financial Emergencies

State Law requires local governmental entities to be subject to review and oversight by the Governor if, due to lack of funds, one or more of the following conditions occur:

- Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due.
- Failure to pay uncontested claims from creditors within 90 days after the claim is presented.
- Failure to transfer at the appropriate time, taxes withheld on the income of employees or employer and employee contributions for Federal social security or any pension, retirement, or benefit plan of an employee.
- Failure for one pay period to pay wages and salaries owed to employees or retirement benefits owed to former employees.

Our review of the 1,317 local governmental entity 2013-14 fiscal year audit reports prepared by independent CPAs and received by us as of October 9, 2015, disclosed that a total of 67 entities (1 municipality and 66 special districts) were reported as meeting one or more of these conditions. Table 1 shows the number of local governmental entities reported as meeting one or more of the specified conditions for each of the 2009-10 through 2013-14 fiscal years and that, except for one condition, the numbers for the 2013-14 fiscal year are lower than the numbers for each of the 4 previous fiscal years.

¹² Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, effective September 30, 2014.

¹³ Section 11.45(7)(e), Florida Statutes.

¹⁴ Section 218.39(8), Florida Statutes.

¹⁵ Section 11.45(7)(f), Florida Statutes.

Table 1
Local Governments Meeting Specified Conditions
Number by Fiscal Year for the 2009-10 Through 2013-14 Fiscal Years

Local Governmental Entities Reported as:	Fiscal Year				
	2009-10	2010-11	2011-12	2012-13	2013-14
Meeting one or more of the financial emergency conditions.	86	92	90	82	67
Failing within the same fiscal year in which due to pay short-term loans or failing to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.	81	89	86	78	65
Failing to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.	17	19	17	21	6
Failing to transfer at the appropriate time, due to lack of funds, taxes withheld on the income of employees or employer and employee contributions for Federal social security or any pension, retirement, or benefit plan of an employee.	-	-	1	2	1
Failing for one pay period to pay, due to lack of funds, wages and salaries owed to employees or retirement benefits owed to former employees.	-	-	-	-	-

Source: Auditor General analysis of local governmental entity audit reports.

If the local governmental entity is reported as meeting one or more of the specified conditions, Rules of the Auditor General¹⁶ require the auditor to specify whether the condition was a result of deteriorating financial conditions. For 48 of the 67 entities reported as meeting one or more of the specified conditions as of September 30, 2014, the auditors indicated that the condition resulted from deteriorating financial conditions.

Deteriorating Financial Conditions

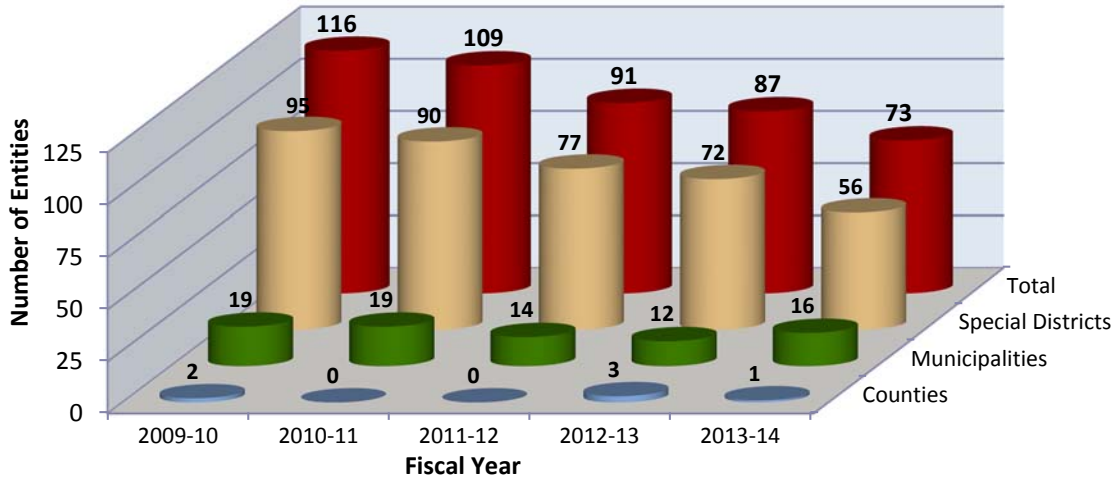
As discussed in the **BACKGROUND** section, Rules of the Auditor General¹⁷ require the independent auditor to assess the local governmental entity's financial condition and include management letter recommendations addressing any deteriorating financial conditions disclosed by the audit. For example, a municipality's failure to implement cost reductions or revenue enhancements to replenish fund equities and cash reserves may result in a future financial emergency condition.

Auditors reported, as of September 30, 2014, a total of 73 entities (1 county, 16 municipalities, and 56 special districts) as experiencing deteriorating financial conditions. As illustrated by Chart 1, the total number of local governmental entities reported as experiencing deteriorating financial conditions has steadily decreased from the 2009-10 fiscal year to the 2013-14 fiscal year.

¹⁶ Section 10.554(1)(i)5.c.(2), Rules of the Auditor General, effective September 30, 2014.

¹⁷ Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, effective September 30, 2014.

Chart 1
Entities Reported as Experiencing Deteriorating Financial Conditions
For the 2009-10 Through 2013-14 Fiscal Years



Source: Auditor General analysis of local governmental entity audit reports.

Millage Rates, Taxable Property Values, and Taxes Levied

In the 2007 and 2008 calendar years, legislation was enacted and, as applicable, approved by voter referendum, limiting the ad valorem revenue-raising capability of local governmental entities. The changes brought about by the legislation include increases in homestead exemptions, portability provisions, caps on the increase in taxable value for nonhomestead properties, and required millage rate reductions and limitations.

As noted for previous fiscal years, we found that, on average, lower-populated counties had 2014 calendar year millage rates that were higher than those of higher-populated counties; however, as shown in Table 2, higher-populated municipalities had higher 2014 calendar year millage rates than lower-populated municipalities.

Table 2
Populations and Tax Rates

Counties		Municipalities	
Population Range	Average 2014 Millage Rate	Population Range	Average 2014 Millage Rate
< 25,000	8.9351	< 1,000	3.3478
25,000 – 74,999	7.7851	1,000 – 2,999	4.9014
75,000 – 224,999	6.1100	3,000 – 9,999	4.7035
225,000 – 674,999	5.7835	10,000 – 24,999	4.9508
675,000 +	5.0689	25,000 – 99,999	5.1942
		100,000 +	6.2804

Source: Bureau of Economic and Business Research, University of Florida; and Florida Department of Revenue, Property Valuations and Tax Rate.

For the 2014 calendar year, six counties and four municipalities established millage rates at or near the statutory maximum of 10 mills¹⁸ (9.5 mills or greater) while, for the 2013 calendar year, the millage rates for seven counties and three municipalities were 9.5 mills or greater. Entities with millage rates at or near the statutory maximum may be unable to raise additional funds when needed.

For the 2014 calendar year, the average ad valorem millage rate was 6.9770 for counties and 4.6902 for municipalities. The average millage rate has decreased 5 percent for counties and increased 7 percent for municipalities since the 2005 calendar year. A summary of average millage rates, the total taxable property values, and the total taxes levied by counties and municipalities for the previous 10 calendar years are shown in Table 3.

Table 3
Average Millage Rates, Taxable Property Values, and Taxes Levied
For the 2005 Through 2014 Calendar Years

Counties				Municipalities			
Year	Average Millage	Taxable Property Values ^a	Taxes Levied ^a	Year	Average Millage	Taxable Property Values ^a	Taxes Levied ^a
2014	6.9770	\$1,391,611,734,036	\$6,945,148,414	2014	4.6902	\$742,348,462,462	\$3,581,671,973
2013	6.8729	\$1,309,341,657,281	\$6,531,531,203	2013	4.6539	\$695,446,435,099	\$3,330,952,225
2012	6.7232	\$1,264,228,016,026	\$6,226,308,983	2012	4.5917	\$670,658,127,577	\$3,240,792,618
2011	6.5857	\$1,276,821,230,854	\$6,217,195,940	2011	4.4754	\$670,933,673,115	\$3,160,580,722
2010	6.5173	\$1,331,000,184,069	\$6,563,758,622	2010	4.4030	\$697,303,250,081	\$3,253,881,973
2009	6.4761	\$1,502,792,440,160	\$7,160,149,619	2009	4.2082	\$789,797,843,364	\$3,586,619,289
2008	6.2996	\$1,701,867,814,355	\$7,791,725,395	2008	3.9841	\$720,590,444,269	\$3,073,819,779
2007	6.1970	\$1,805,873,056,801	\$8,111,079,346	2007	4.8943	\$766,269,119,373	\$3,005,327,370
2006	6.9451	\$1,635,033,562,670	\$8,928,231,811	2006	4.2689	\$850,654,287,997	\$3,948,085,738
2005	7.3751	\$1,309,754,176,278	\$7,586,284,807	2005	4.3675	\$683,319,146,683	\$3,272,616,315

^a 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.

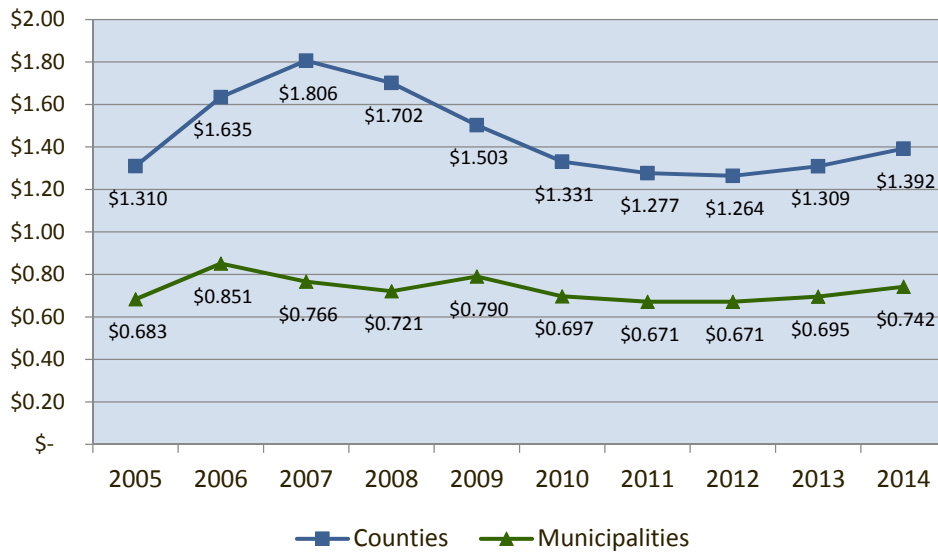
Source: Florida Department of Revenue, Property Valuations and Tax Data.

Table 3 also shows that the counties' average millage rates increased for each year beginning with the 2008 calendar year, and the municipalities' average millage rates increased each year beginning with the 2009 calendar year.

As depicted in Charts 2 and 3, although there was an overall increase in the taxable property values and taxes levied since the 2005 calendar year, there was a significant decrease in taxable property values and taxes levied from the 2008 through 2012 calendar years for counties and from the 2007 through 2011 calendar years for municipalities. Taxable property values increased by approximately \$82 billion (6 percent) and \$59 billion (9 percent) for counties and municipalities, respectively, over the 10-year period 2005 through 2014. Taxes levied decreased by approximately \$641 million (8 percent) for counties and increased by approximately \$309 million (9 percent) for municipalities, over the same period.

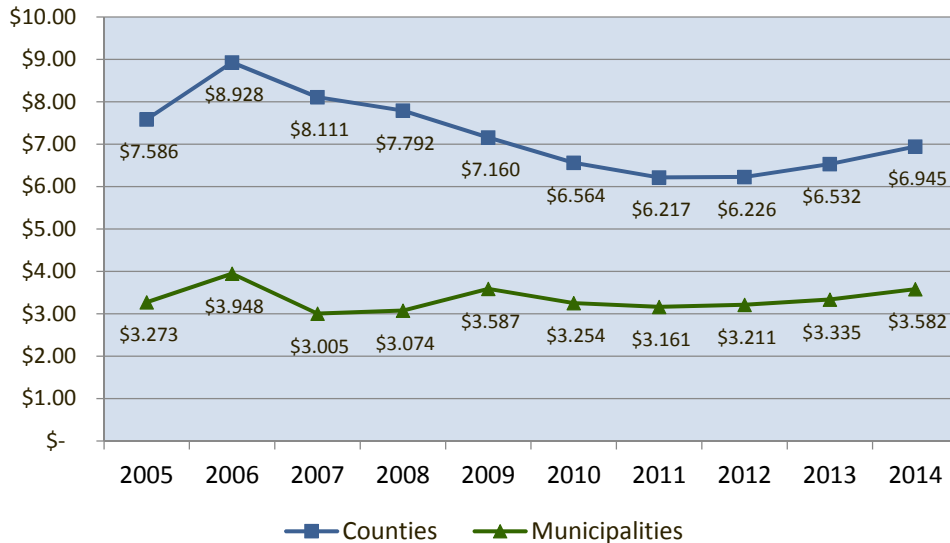
¹⁸ Sections 200.071 and 200.081, Florida Statutes

Chart 2
Taxable Property Values
For the 2005 Through 2014 Calendar Years
(In Trillions)



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

Chart 3
Taxes Levied
For the 2005 Through 2014 Calendar Years
(In Billions)



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

Pension Plans

We noted that 480 of the 1,280 local governmental entity 2013-14 fiscal year audit reports submitted to us as of July 31, 2015, reported the existence of one or more employee defined benefit pension plans. These 480 audit reports related to 65 counties, 251 municipalities, and 164 special districts. The reported employee defined benefit pension plans include plans for general employees, firefighters, police officers, or some combination thereof (mixed).

Of the 480 local governmental entities reporting employee defined benefit pension plans, 359 local governmental entities (65 counties, 144 municipalities, and 150 special districts) participated in the Florida Retirement System (FRS). In addition, 158 of the 480 local governmental entities reported a total of 324 local pension plans (i.e., plans not part of the FRS), including 299 municipal plans (109 for general employees, 76 for firefighters, 86 for police officers, and 28 mixed pension plans), 23 special district plans (12 for general employees and 11 for firefighters), and 2 county firefighter plans.

Historically, defined benefit pension plans that provide specified pension benefits to retirees have been prevalent in the public sector. The Government Finance Officers Association (GFOA), in its best practice publication,¹⁹ *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 regarding the sustainability of pension benefits 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 (i.e., long-term funding). Long-term funding is accomplished by employer and employee contributions and investment earnings.

In recent years, the funding status of employee defined benefit pension plans has been a concern, particularly due to the recent economic crisis. The GFOA recommends that governments adopt funding policies that target a funded ratio²⁰ of 100 percent or more. 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.

The implementation of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, replaced the funded ratio measurement with the calculation of Plan Fiduciary Net Position as a Percentage of Total Pension Liability²¹ and these two measures are not comparable. Currently, there is no GFOA guidance regarding what percentages of Plan Fiduciary Net Position as a Percentage of Total Pension Liability may be considered as indicators of potential default.

Chart 4 presents, for the local pension plans that reported Plan Fiduciary Net Position as a Percentage of Total Pension Liability as required by GASB Statement No. 67 for the 2013-14 fiscal year, ranges of

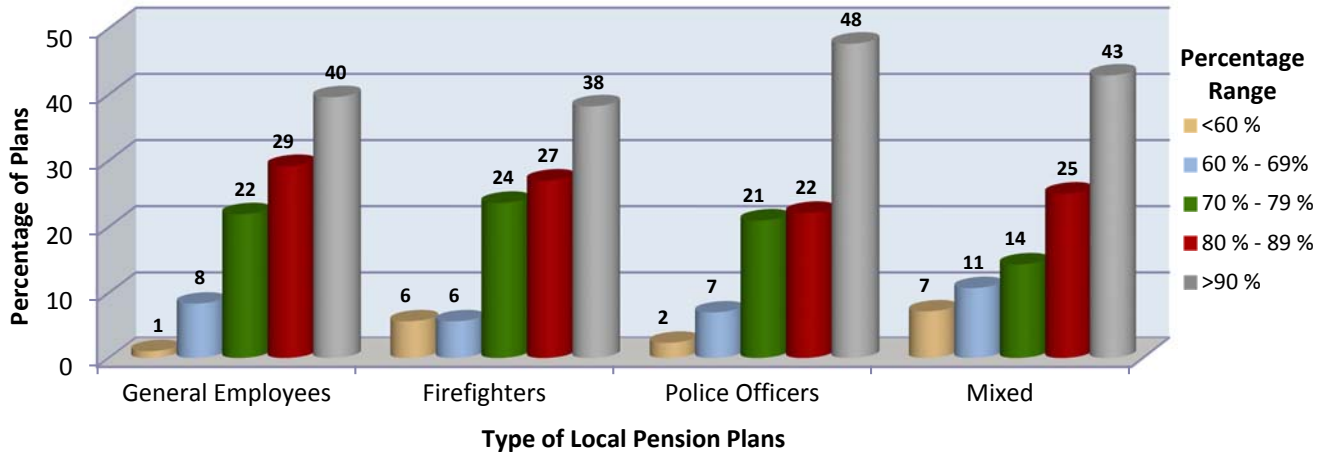
¹⁹ The GFOA issues best practices to communicate enhanced techniques and provide information about effective strategies regarding public finance for state and local governments.

²⁰ A pension plan's funded ratio is the percentage of a plan's liabilities that are covered by its assets.

²¹ Fiduciary net position is the residual amount on the pension plan's statement of fiduciary net position after subtracting liabilities and deferred inflows of resources from assets and deferred outflows of resources. The total pension liability is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service.

reported percentages by local pension plan type (i.e., general employees, firefighters, police officers, and mixed). For comparative purposes, as of June 30, 2014, the FRS reported 96.09 percent as the Plan Fiduciary Net Position as a Percentage of Total Pension Liability.

Chart 4
Local Pension Plans Plan Fiduciary Net Position
As a Percentage of Total Pension Liability
As Reported for the 2013-14 Fiscal Year



Source: Auditor General analysis of local governmental entity audit reports.

Other Financial Trends

Our examination of trends using financial and other information obtained for the counties, municipalities, and special districts evaluated for the 2003-04 through 2013-14 fiscal years disclosed the following significant financial trends. These financial trends are compiled based on our 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 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.

As shown in Table 4, 123 entities reported net deficit total assigned and unassigned²² or unrestricted fund equities as of September 30, 2014, which represents an increase of 45 percent over the number of entities that reported deficits as of September 30, 2009, and an increase of 146 percent over the number of entities that reported deficits as of September 30, 2004. Although local governments are not statutorily

²² For comparison purposes, the assigned and unassigned fund balance classifications pursuant to GASB Statement No. 54 is similar to unreserved fund balance used in prior reports.

required to maintain a specified level of assigned and unassigned or 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.

Table 4
Summary of Analysis of Fund Equities and Results of Operations ^a
For the 2003-04, 2008-09, and 2013-14 Fiscal Years

Condition	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2003-04	2008-09	2013-14	2003-04	2008-09	2013-14	2003-04	2008-09	2013-14	2003-04	2008-09	2013-14
Number of reports reviewed.	66	66	65	396	396	380	633	1,005	1,001	1,095	1,467	1,446 ^b
Reported net deficit total assigned and unassigned or unrestricted fund equity.	-	1	1	4	11	6	46	73	116	50	85	123
Reported no assigned and unassigned or unrestricted fund equity.	-	-	-	-	2	1	63	152	92	63	154	93
Experienced either excess expenditures over revenues in governmental operations or operating losses in proprietary operations.	53	56	57	293	296	265	323	516	529	669	868	851
Experienced net losses when both governmental and proprietary funds were taken into account.	42	48	44	195	213	169	317	503	524	554	764	737
Experienced net losses and reported net deficit assigned and unassigned or unrestricted fund equity.	-	1	1	3	7	3	30	62	96	33	70	100

^a For the 2013-14 fiscal year, 1 municipality and 39 special districts reported no assigned and unassigned or unrestricted fund equity and 25 special districts reported net deficit total assigned and unassigned or unrestricted fund equity in their annual financial reports. Also, 2 municipalities and 51 special districts reported losses in either governmental or proprietary funds, and 1 municipality and 51 special districts reported net losses when both governmental and proprietary funds were considered in the 2013-14 fiscal year annual financial reports. For the 2003-04 and 2008-09 fiscal years, pre-GASB Statement No. 54 terminology (i.e., unreserved or unrestricted fund equity) was used for the fund equity amounts.

^b Total includes, for the 2013-14 fiscal year, 1,280 audit reports received through July 31, 2015, and 166 annual financial reports.

Source: Auditor General analysis of local governmental entity audit reports and annual financial reports.

Although many entities use excess revenues in governmental funds to support proprietary fund operations, or vice versa, we noted that 737 entities, or 51 percent of the entities whose reports we reviewed, experienced net losses when both governmental and proprietary funds were taken into account for the 2013-14 fiscal year. This percentage is comparable to the 51 percent and 52 percent of entities whose reports we reviewed for the 2003-04 and 2008-09 fiscal years, respectively. However, municipalities reported significant changes, as the percent of entities that experienced net losses decreased from 54 percent for the 2008-09 fiscal year to 44 percent for the 2013-14 fiscal year.

Additionally, of the 737 entities that experienced net losses from 2013-14 fiscal year operations, 100 entities (7 percent of the entities whose reports we reviewed) also reported net deficit total assigned and unassigned or unrestricted fund equities as of September 30, 2014, an increase of 43 percent

compared to the 2008-09 fiscal year, and an increase of 203 percent compared to the 2003-04 fiscal year. Continued excess of expenses or expenditures over revenues and net deficit total assigned and unassigned or unrestricted fund equities may leave such entities with insufficient funds to sustain current levels of services without borrowing funds from outside sources. Additionally, those entities have less resources available for emergencies and unforeseen situations.

Other Trends

A total of 108 audited entities (8 municipalities and 100 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2014, which was the same number of entities that similarly reported cash and investments as of September 30, 2009, but 21 more than the 87 entities that similarly reported cash and investments as of September 30, 2004. In addition, 57 special districts reporting via annual financial reports reported cash and investments in amounts not sufficient to cover current liabilities as of September 30, 2014. 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 report noncompliance and control deficiencies 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. Of the 1,597²³ 2013-14 fiscal year audit reports we reviewed (including reports for 382 county agencies, 373 municipalities, and 842 special districts), a total of 48 reports contained modified opinions (25 qualified and 23 adverse opinions).

Table 5 lists the 25 entities whose 2013-14 fiscal year audit reports included qualified opinions. The 25 entities' reports represent a decrease from the 27 entities' reports with qualified opinions for the 2012-13 fiscal year. Examples of Auditor-issued qualified opinions include failure to implement the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; failure to implement the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*; and insufficient evidence for expenditures.

²³ Of the 1,280 audit reports received, 65 were county audit reports that each included separate audits of each county agency. We reviewed the information separately reported for each county agency in the county audit reports received and, therefore, reviewed audits related to a total of 1,597 local governmental entities.

Table 5
Entities with Qualified Audit Report Opinions

1	Baker County Board of County Commissioners
2	Union County Board of County Commissioners
3	Washington County Board of County Commissioners
4	Alford, Town of
5	Altha, Town of
6	Callahan, Town of
7	Chiefland, City of
8	Crestview, City of
9	Cross City, Town of
10	Gulf Stream, Town of
11	Hastings, Town of
12	Inglis, Town of
13	Mangonia Park, Town of
14	Otter Creek, Town of
15	Valparaiso, City of
16	Yankeetown, Town of
17	Big Bend Water Authority
18	Buckeye Park Community Development District
19	Clearwater Cay Community Development District
20	East Niceville Fire District
21	Midway Fire District
22	New River Public Library Cooperative
23	Portofino Landings Community Development District
24	South Bay Community Development District (Hillsborough County)
25	St. Augustine Port, Waterway and Beach District

Source: Auditor General analysis of local governmental entity audit reports.

Table 6 lists the 23 entities whose 2013-14 fiscal year reports included adverse opinions. The 23 entities' reports represent an increase from the 15 entities' reports with adverse opinions for the 2012-13 fiscal year. The adverse opinions were primarily due 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.

Table 6
Entities with Adverse Audit Report Opinions

1	Arborwood Community Development District
2	Chapel Creek Community Development District
3	Concorde Estates Community Development District
4	Durbin Crossing Community Development District
5	Glen St. Johns Community Development District
6	Gramercy Farms Community Development District
7	Magnolia Creek Community Development District
8	Magnolia West Community Development District
9	Meadow Pointe III Community Development District
10	Meadow Pointe IV Community Development District
11	Palm River Community Development District
12	Portofino Isles Community Development District
13	River Glen Community Development District
14	Riverwood Estates Community Development District
15	Spring Ridge Community Development District
15	Sterling Hill Community Development District
17	Trails Community Development District
18	Villa Vizcaya Community Development District
19	Waterford Estates Community Development District
20	Waterstone Community Development District
21	Westridge Community Development District
22	Westside Community Development District
23	Zephyr Ridge Community Development District

Source: Auditor General analysis of local governmental entity audit reports.

Classification of Audit Findings

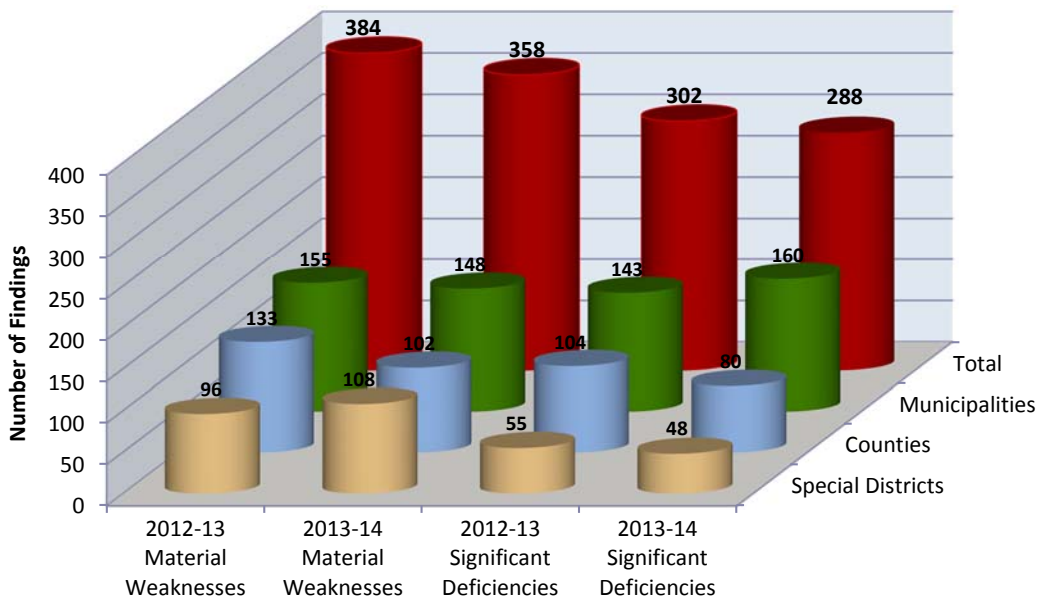
Auditing standards require auditors to report significant deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, 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. The classification of an audit finding is dependent upon its potential impact on the specific entity under audit; therefore, classifications could vary from entity to entity.

Of the 1,597 audit reports that we reviewed, 215 reports (13 percent) included one or more material weaknesses and 155 reports (10 percent) included one or more significant deficiencies. The material

weaknesses and significant deficiencies reported primarily related to inappropriate separation of duties, general accounting records, and financial reporting.

Of the 1,358 findings included in audit reports that we reviewed, 358 findings (26 percent) were considered material weaknesses and 288 findings (21 percent) were considered significant deficiencies. Chart 5 shows that the number of material weaknesses decreased by 26 (from 384 to 358, or 7 percent) and the number of significant deficiencies decreased by 14 (from 302 to 288, or 5 percent) from the 2012-13 to the 2013-14 fiscal years.

**Chart 5
Number of Findings Classified as
Material Weaknesses and Significant Deficiencies**



Source: Auditor General analysis of local governmental entity audit reports.

Significant Deficiencies and Other Audit Findings

As part of our review, we established categories of findings and classified the various audit findings included in the county, municipality, or special district 2013-14 fiscal year audit reports accordingly. Although the total number of audit reports we reviewed for the 2013-14 fiscal year increased by 1 percent over the number we reviewed for the 2012-13 fiscal year, the total number of findings included in the 2013-14 fiscal year audit reports decreased by 280 findings (17 percent) as there were 1,358 findings compared to the 1,638 findings included in the reports reviewed for the 2012-13 fiscal year.

Summaries of the predominant and most significant audit findings included in the 2013-14 fiscal year audit reports reviewed for 382 county agencies, 373 municipalities, and 842 special districts 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 A**.

Separation of Duties. For 44 of the county agency reports (12 percent), 62 of the municipality reports (17 percent), and 30 of the special district reports (4 percent), findings were noted regarding an inadequate separation of duties or responsibilities. This represents 9 percent of all reports, 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 fraud may occur without being timely detected and diminishes the local governmental entity's ability to properly safeguard assets. For many of these instances, the county agencies, municipalities, and special districts contended that, due to small staff, it was not economically feasible to further separate duties or responsibilities. However, the auditor frequently recommended that the county agency, municipality, or special district reassign duties and responsibilities or establish compensating controls.

Budget Administration. For 14 of the county agency reports (4 percent), 27 of the municipality reports (7 percent), and 26 of the special district reports (3 percent), findings were noted regarding inadequate budgetary controls and noncompliance with legal requirements for adopting and amending the budget. This represents 4 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. The findings addressed problems relating to failure to properly adopt a budget, inadequate budgetary policies, failure to budget for all funds or projects, and overexpended budgets. Examples include a sheriff who did not prepare a budget for the Contraband Forfeiture Fund, a municipality that did not adopt a final budget amendment for the General Fund when expenditures exceeded appropriations, and a special district that did not adopt a budget for the Special Purpose Entity Fund. Budgetary problems may 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 32 of the county agency reports (8 percent), 68 of the municipality reports (18 percent), and 35 of the special district reports (4 percent), findings were noted regarding inadequate accounting or other records, lack of subsidiary records or failure to timely reconcile subsidiary records to general ledger control accounts, and improper recording of transactions to the accounting records. This represents 8 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples include a property appraiser who failed to record proceeds from a legal settlement in the correct fiscal year, a municipality's overstatement of accounts payable and expenditures balances, and a special district requiring a total of 71 adjusting journal entries, including audit adjustments, to provide accurate and reliable financial information. Recordkeeping deficiencies may reduce 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 could affect the reliability of the entity's reporting of financial position and results of operations.

Financial Reporting. For 48 of the county agency reports (13 percent), 72 of the municipality reports (19 percent), and 55 of the special district reports (7 percent), findings were noted relating to the reporting of financial data either externally or within the local governmental entity. This represents 11 percent of all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples include a board of county commissioners that did not timely submit the public depositor annual report to the Florida Department of Financial Services, a municipality that did not file Internal Revenue Service Forms 1099 and 1096 for various contracted services, and a special district

that did not timely file its quarterly financial reports with the Florida Office of Insurance Regulation as required by State Law.²⁴ Financial reporting problems may 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 11 of the county agency reports (3 percent), 34 of the municipality reports (9 percent), and 13 of the special district reports (2 percent), 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, which was the same percentage of reports with similar findings in the prior fiscal year. The findings addressed 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 include a clerk of the circuit court with several individual registry balances relating to cases that have been adjudicated or had been inactive for more than 5 years, a municipality police department with a checking account not recorded in the municipality's financial records, and a special district lacking evidence of review of monthly bank reconciliations. Cash accountability deficiencies increase the risk of unauthorized disbursements and cash losses without prompt detection.

Capital Assets. For 8 of the county agency reports (2 percent), 39 of the municipality reports (10 percent), and 17 of the special district reports (2 percent), 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 4 percent of all reports, a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. The findings addressed 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 include a board of county commissioners that did not timely record donated property, resulting in an overstatement of capital contributions; a municipality that closed out capital improvement projects prior to their completion dates; and a special district that incorrectly recorded assets in the capital asset depreciation software, causing depreciation expense to be overstated. Capital asset accountability deficiencies may affect an entity's ability to demonstrate that it has efficiently and appropriately acquired, disposed of, and safeguarded capital assets and increase the risk that such assets could be misappropriated without being promptly detected.

Revenues and Collections. For 13 of the county agency reports (3 percent), 48 of the municipality reports (13 percent), and 10 of the special district reports (1 percent), findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable. This represents 4 percent of all reports, a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. The findings addressed improper recording of revenue or accounts receivable transactions, improper documentation for receipts, lack of an adequate

²⁴ Section 641.26, Florida Statutes.

fee structure, untimely deposits, and deposits not made intact. Examples include a board of county commissioners that failed to timely adjust accounts receivable balances based on adjustments made by a third-party billing company, a municipality that under-remitted traffic fine revenues to the State due to an error in a tracking spreadsheet, and a special district that did not properly and timely record rental income and expenses. Revenue and accounts receivable deficiencies may 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 5 of the county agency reports (1 percent), 29 of the municipality reports (8 percent), and 11 of the special district reports (1 percent), findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration. This represents 3 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. The findings addressed improper authorization and payment of salaries and benefits to employees, improper recording of payroll or personnel transactions, failure to properly and timely remit payroll taxes withheld, or other payroll or personnel matters. Examples include a supervisor of elections whose annual compensation was \$2,000 greater than the amount allowed by State Law,²⁵ a municipality with incomplete time sheets and time cards that did not evidence supervisory approval, and a special district employee who had inappropriate access to the district's payroll module. Payroll and personnel deficiencies increase the risk that employees may be incorrectly compensated and employee leave balances may not be accurate.

Purchasing and Contract Management. For 6 of the county agency reports (2 percent), 22 of the municipality reports (6 percent), and 8 of the special district reports (1 percent), findings were noted regarding procurement of goods or services, or contract or grant management. This represents 2 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. The findings addressed lack of monitoring, noncompliance with contract or grant provisions, failure to use purchase orders, lack of documented prior approval for purchases, noncompliance with bid or quotation requirements, and lack of documentation of the receipt of goods or services. Examples include a board of county commissioners that incorrectly calculated a grant reimbursement request for a child support services grant, overstating the reimbursement amount; a municipality with an outdated purchasing card policy not reflective of current procedures; and a special district that had no documentation of Board approval for purchase orders totaling \$11.4 million issued pursuant to three contracts for pharmacy services. Purchasing and contract management deficiencies increase the risk of overpayment or that services provided may not be consistent with the entity's intent.

Expenditures and Expenses. For 14 of the county agency reports (4 percent), 19 of the municipality reports (5 percent), and 11 of the special district reports (1 percent), findings were noted regarding the expenditure of public funds. This represents 3 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. The findings addressed expenditures or expenses that were not properly documented, approved, or recorded; not executed efficiently; or not made in accordance with laws, rules, ordinances, or other guidelines. Examples include

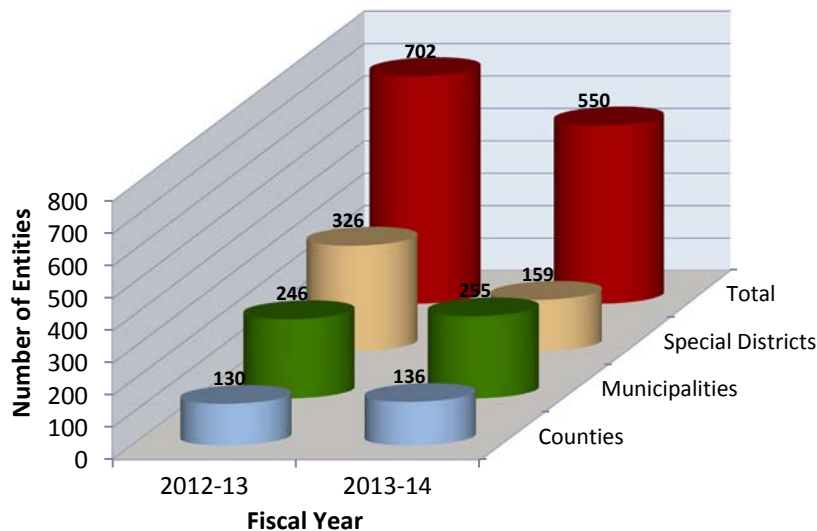
²⁵ Section 145.09, Florida Statutes.

a sheriff who made untimely and duplicate payments to vendors or providers for goods and services, a municipality that made a duplicate payment to a construction contractor, and a special district's online bill pay portal that did not require trustee approval to safeguard against improper payment amounts and unauthorized vendors. Expenditure and expense deficiencies increase the risk of improper payments and inappropriate or inefficient use of public resources.

Detail of Audit Findings

Rules of the Auditor General²⁶ prescribe the required elements of audit report findings. Of the 1,358 findings included in audit reports reviewed, 550 reports (41 percent) did not include one or more of the required elements. Chart 6 presents the total number of insufficiently detailed audit findings reported for the 2012-13 and 2013-14 fiscal years.

Chart 6
Insufficiently Detailed Audit Findings



Source: Auditor General analysis of local governmental entity audit reports.

Although, when compared to the prior fiscal year, the total percentage of insufficiently detailed findings for the 2013-14 fiscal year decreased from 43 to 41 percent, the total number and percentage of insufficiently detailed findings remains high. Contrary to the Rules of the Auditor General, most such findings excluded one or more of the following:

- 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).

²⁶ Section 10.557(4)(b), Rules of the Auditor General effective September 30, 2014.

Inadequately written audit findings affect the ability of audit report users to understand the exact nature of the problem addressed in the finding and the necessary corrective action. This may have contributed to the relatively high percentage of repeated audit findings.

Repeated Findings from Previous Fiscal Years

Of the 1,358 findings included in 2013-14 fiscal year audit reports we reviewed, 549 findings (40 percent) for 320 local governmental entities (76 county agencies, 122 municipalities, and 122 special districts) were also included in the entities' 2012-13 and 2011-12 fiscal year audit reports. This is a decrease when compared to the 675 findings (41 percent) reported in the 2012-13 audit reports that had also been included in the 2011-12 and 2010-11 fiscal year audit reports. This decrease may be attributed, in part, to the statutory requirement²⁷ effective for the 2011-12 fiscal year that requires the Auditor General to 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.

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 Department of Financial Services (DFS), 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 DFS,²⁸ 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, the financial trends based on annual financial reports included in this report are based, in part, on unverified amounts.

The scope of this project included a review of the independent CPA-prepared 2013-14 fiscal year audit reports submitted to us by July 31, 2015, for 65 counties (which included 382 individual county agency reports), 373 municipalities, and 842 special districts. The scope also included 7 municipality and 159 special district annual financial reports submitted to the DFS by entities that were not required to provide for an audit. In addition, the scope included a review of audit reports received for 1,317 entities (66 counties, 386 municipalities, and 865 special districts) through October 9, 2015, for the purpose of identifying entities that were reported as having met a condition specified in State Law,²⁹ or having deteriorating financial conditions.

Our methodology included a review of applicable audit reports and annual financial reports and a compilation of significant financial trends and findings. We included 1,280 entities (65 counties, 373 municipalities, and 842 special districts) in our analysis of significant financial trends (except for Table 4, where we also included annual financial reports for 7 municipalities and 159 special districts). We included 1,597 entities (382 county agencies, 373 municipalities, and 842 special districts) in our

²⁷ Section 218.39(8), Florida Statutes.

²⁸ Section 218.32(1)(e), Florida Statutes.

²⁹ Section 218.503(1), Florida Statutes.

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 Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of significant findings and financial trends 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, 2014.



Sherrill F. Norman, CPA
Auditor General

EXHIBIT A

SUMMARY OF REPORTS INCLUDING PREDOMINANT AND SIGNIFICANT AUDIT FINDINGS BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013, AND 2014

Category	County Agencies		Municipalities		Special Districts		Total	
	Fiscal Year		Fiscal Year		Fiscal Year		Fiscal Year	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Separation of Duties - Findings related to inadequate separation of duties.	49	44	67	62	36	30	152	136
Budget Administration - Findings related to inadequate budgetary controls or noncompliance with legal requirements relating to budgets.	11	14	28	27	45	26	84	67
General Accounting Records - Findings related to 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 (excludes capital assets).	31	32	79	68	33	35	143	135
Financial Reporting - Findings related to reporting of financial data externally or within the local governmental entity.	50	48	69	72	63	55	182	175
Cash - Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks.	16	11	27	34	14	13	57	58
Capital Assets - Findings related to noncompliance with legal requirements pertaining to acquisitions or disposals of capital assets or the improper use of, and lack of accountability for, capital assets.	24	8	38	39	25	17	87	64
Revenues and Collections - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable.	23	13	54	48	19	10	96	71
Payroll and Personnel Administration - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration.	14	5	43	29	9	11	66	45
Purchasing and Contract Management - Findings related to the procurement of goods or services or inadequate contract or grant management.	12	6	32	22	10	8	54	36
Expenditures and Expenses - Findings related to the expenditure of public funds.	17	14	22	19	26	11	65	44

Source: Auditor General analysis of local governmental entity audit reports.