

**SUMMARY OF
SIGNIFICANT FINDINGS AND
FINANCIAL TRENDS IDENTIFIED IN
LOCAL GOVERNMENT AUDIT REPORTS
FOR THE 2015-16 FISCAL YEAR**

Pursuant to Section 11.45(7)(f), Florida Statutes



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SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN LOCAL GOVERNMENT AUDIT REPORTS FOR THE 2015-16 FISCAL YEAR

SUMMARY

State law¹ requires certain local governmental entities, such as counties and certain municipalities and special districts, to provide for annual financial audits conducted by independent certified public accountants (CPAs), and to file copies of their audit reports with us.

Pursuant to State law,² we reviewed the local governmental entity 2015-16 fiscal year audit reports submitted to us as of July 31, 2017, as well as the local governmental entity 2015-16 fiscal year annual financial reports (AFRs) submitted to the Department of Financial Services (DFS) pursuant to State law³ and provided to us. Our review and analysis of the reported information identified the significant findings and financial trends compiled in this report.

Significant Findings

We reviewed 2015-16 fiscal year audit reports for 1,608 local governmental entities⁴ (358 county agencies, 371 municipalities, and 879 special districts) submitted to us as of July 31, 2017, and noted that:

- The audit reports for 39 (2 percent) of the entities contained modified opinions.
- The audit reports for 184 (11 percent) of the entities disclosed one or more material weaknesses and audit reports for 159 (10 percent) of the entities disclosed 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.
- The audit reports reviewed contained 1,119 findings, which is comparable to the 1,111 findings included in the 2014-15 fiscal year audit reports reviewed. Of the 1,119 findings, 423 had been similarly reported in the 2014-15 and 2013-14 fiscal year audit reports, compared to 453 of the audit findings reported in the 2014-15 audit reports that had been similarly reported in the 2013-14 and 2012-13 fiscal year audit reports. These decreases may be attributed, in part, to the statutory requirement⁵ 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.
- Many (33 percent) of the findings in the audit reports we reviewed did not include one or more of the elements required by the Rules of the Auditor General.⁶

¹ Section 218.39, Florida Statutes.

² Section 11.45(7)(f), Florida Statutes.

³ Section 218.32(1)(a), Florida Statutes.

⁴ The 1,311 audit reports received through July 31, 2017, included 61 county audit reports that each included separate audits of each county agency. We reviewed the findings separately reported for the county agencies in the county audit reports received and, therefore, reviewed audit reports related to a total of 1,608 local governmental entities.

⁵ Section 218.39(8), Florida Statutes.

⁶ Chapter 10.550, Rules of the Auditor General.

Financial Trends

In addition to the 1,311 local governmental entity 2015-16 fiscal year audit reports submitted to us through July 31, 2017, we received audit reports for the 2015-16 fiscal year from 53 other local governmental entities during the period August through October 2017. We reviewed these 1,364 audit reports as well as 146 local governmental entity unaudited AFRs submitted to the DFS and provided to us. Our reviews of the 1,364 audit reports included a determination of whether the financial statement auditor reported that the entity met one or more of the conditions described in State law⁷ that could cause the entity to be in a state of financial emergency. We also compiled and reviewed financial data, for example, fund equity, cash, and investments balances reported, as applicable, for the 1,311 audit reports submitted to us through July 31, 2017, and the 146 AFRs. Our reviews disclosed that:

- The audit reports for 55 (3 municipalities and 52 special districts), or 4 percent, of the 1,364 entities reported that the entity met at least one condition described in State law that could cause the entity to be in a state of financial emergency. When compared to our review results for the previous 4 fiscal years, this is the fewest number of entities reported as meeting at least one of the conditions.
- The audit reports for 61 (12 municipalities and 49 special districts), or 4 percent, of the 1,364 entities reported that the entity was experiencing deteriorating financial conditions. The number of reported entities experiencing deteriorating financial conditions decreased from 91 entities during the 2011-12 fiscal year to 61 entities during both the 2014-15 and 2015-16 fiscal years.
- Taxable property values and taxes levied in the 2016 calendar year were more than the values and levies in each of the 4 previous calendar years. However, county and municipality taxable property values decreased by \$207 billion (11 percent) and \$58 billion (6 percent), respectively, over the 9-year period 2007 through 2016. Taxes levied decreased by \$144 million (2 percent) for counties and increased by \$288 million (7 percent) for municipalities, for the same period.
- Certain financial trends for numerous entities were identified 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.

⁷ Section 218.503(1), Florida Statutes.

BACKGROUND

One of the local government financial reporting system goals set forth in State law⁸ 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 law⁹ requires local governmental entity financial audits be performed by independent certified public accountants (CPAs). The independent auditors are to notify local governmental entities of:¹⁰

- Deteriorating financial conditions that may cause a condition described in State law¹¹ 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 General¹² 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.

The local governmental entity's independent auditor is also required by Rules of the Auditor General¹³ to apply appropriate procedures and state in the management letter whether or not the local governmental entity met one or more of the conditions specified in State law. When one or more of the conditions 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.¹⁴

State law¹⁵ requires us to review, in consultation with the Florida Board of Accountancy, all local governmental entity audit reports submitted to us. Pursuant to State law,¹⁶ if an entity is reported as meeting one or more of the specified conditions, we 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.¹⁷ 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 findings and financial

⁸ Section 11.45(2)(g), Florida Statutes.

⁹ Section 218.39(1), Florida Statutes.

¹⁰ Section 218.39(5), Florida Statutes.

¹¹ Section 218.503(1), Florida Statutes.

¹² Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General.

¹³ Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General.

¹⁴ Section 218.503(2), Florida Statutes.

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

¹⁶ Section 11.45(7)(e), Florida Statutes.

¹⁷ Section 218.39(8), Florida Statutes.

trends 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.¹⁸

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:

- 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.
- Adverse opinions, whereby the auditor states that the financial statements are not fairly presented.
- Disclaimers of opinion, whereby the auditor does not express an opinion.

We reviewed 2015-16 fiscal year audit reports for 1,608 local governmental entities¹⁹ (358 county agencies, 371 municipalities, and 879 special districts) and noted that the audit reports for 39 (2 percent) of the entities contained one or more modified opinions. The reported information included:

- Qualified opinions for 24 entities (1 county, 6 municipalities, and 17 special districts).
- Adverse opinions for 24 special districts. Qualified opinions were also reported for 10 of these special districts.
- A disclaimer of opinion for 1 special district (Fort Myers Beach Fire Control District) because the auditor was unable to audit the Fiduciary Fund.

Thirty-five (90 percent) of the 39 local governmental entities with modified opinions also had one or more modified opinions for the 2014-15 fiscal year.

Table 1 lists the 24 entities whose 2015-16 fiscal year audit reports included qualified opinions. 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*; inadequate records for capital assets; and insufficient evidence for expenditures. The percentage of 2015-16 fiscal year audit reports reviewed with qualified opinions (1.5 percent) is comparable to the percentage of 2014-15 fiscal year audit reports reviewed with qualified opinions (1.4 percent).

¹⁸ Section 11.45(7)(f), Florida Statutes.

¹⁹ The 1,311 audit reports received included 61 county audit reports that each included separate audits of each county agency. We reviewed the findings separately reported for each of the county agencies in the county audit reports received and, therefore, reviewed audit reports related to a total of 1,608 local governmental entities.

Table 1
Entities with Qualified Audit Report Opinions
For the 2015-16 Fiscal Year

County	
1	Washington County Board of County Commissioners ^a
Municipality	
1	Town of Alford ^a
2	City of Chiefland ^a
3	Town of Freeport
4	Town of Gulf Stream ^a
5	Town of Howey-in-the-Hills ^a
6	Town Otter Creek
Special District	
1	Arborwood Community Development District ^{a b c}
2	Big Bend Water Authority ^a
3	Buckeye Park Community Development District ^a
4	City Center Community Development District ^{b c}
5	Clearwater Cay Community Development District ^a
6	Durbin Crossing Community Development District ^{a b c}
7	Gramercy Farms Community Development District ^{b c}
8	Meadow Point IV Community Development District ^{b c}
9	Montecito Community Development District ^{a b c}
10	New Port – Tampa Bay Community Development District ^{a b c}
11	New River Public Library Cooperative ^a
12	Riverwood Estates Community Development District ^{b c}
13	South Bay Community Development District (Hillsborough County) ^a
14	St. Augustine Port, Waterway and Beach District ^a
15	Tern Bay Community Development District ^b
16	Viera Stewardship District ^a
17	Westside Community Development District ^{a b c}

24 Total Number of Audit Reports with Qualified Opinions

- ^a Entity's 2014-15 fiscal year audit report also included a qualified opinion.
- ^b Entity's 2015-16 fiscal year audit report also included an adverse opinion.
- ^c Entity's 2014-15 fiscal year audit report also included an adverse opinion.

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

Table 2 lists the 24 special districts whose 2015-16 fiscal year audit reports included adverse opinions. The adverse opinions were primarily because the special districts excluded component units from their financial statements. The percentage of 2015-16 fiscal year audit reports reviewed with adverse opinions (1.5 percent) is comparable to the percentage of 2014-15 fiscal year audit reports reviewed with adverse opinions (1.7 percent).

Table 2
Entities with Adverse Audit Report Opinions
For the 2015-16 Fiscal Year

Special District	
1	Arborwood Community Development District ^{a b}
2	Chapel Creek Community Development District ^a
3	City Center Community Development District ^{a b}
4	Concorde Estates Community Development District ^a
5	Durbin Crossing Community Development District ^{a b}
6	Gramercy Farms Community Development District ^{a b}
7	Magnolia Creek Community Development District ^a
8	Magnolia West Community Development District ^a
9	Meadow Pointe IV Community Development District ^{a b}
10	Montecito Community Development District ^{a b}
11	Naturewalk Community Development District ^a
12	New Port – Tampa Bay Community Development District ^{a b}
13	Reunion West Community Development District ^a
14	River Glen Community Development District ^a
15	Riverwood Estates Community Development District ^{a b}
16	Sterling Hill Community Development District ^a
17	Tern Bay Community Development District ^b
18	Trails Community Development District ^a
19	Villa Vizcaya Community Development District ^a
20	Waterford Estates Community Development District ^a
21	Waterstone Community Development District ^a
22	Westridge Community Development District ^a
23	Westside Community Development District ^{a, b}
24	Zephyr Ridge Community Development District ^a

24 Total Number of Audit Reports with Adverse Opinions

^a Entity's 2014-15 fiscal year audit report also included an adverse opinion.

^b Entity's 2015-16 fiscal year audit report also included a qualified opinion.

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

Classification of Audit Findings

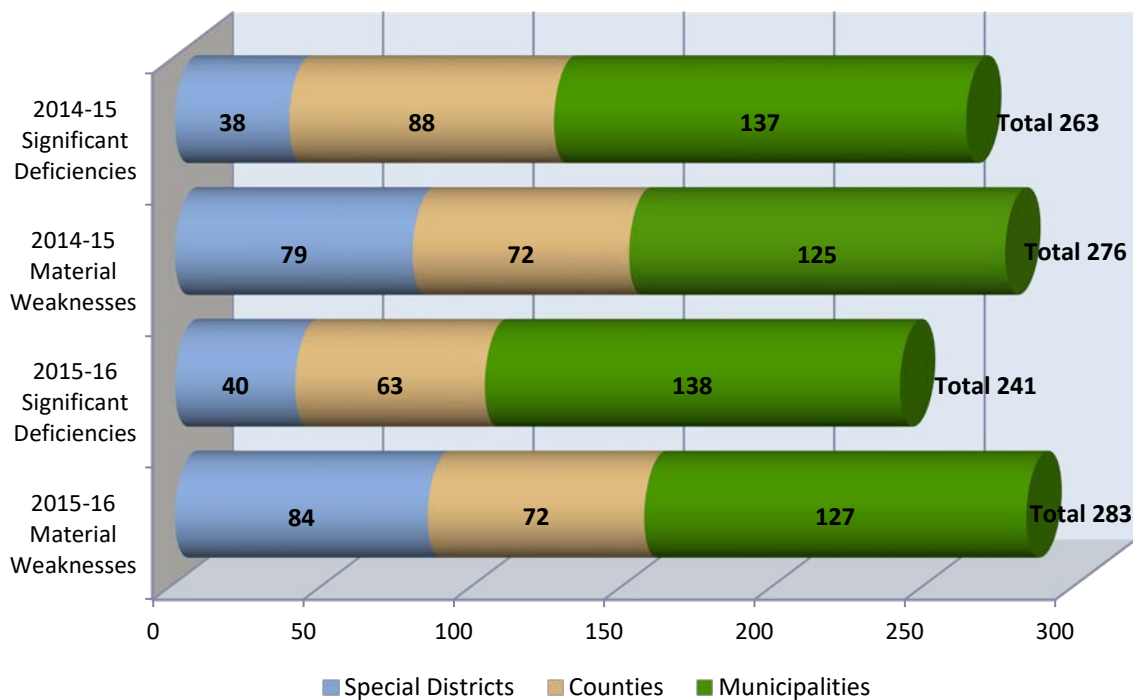
Auditing standards require auditors to report significant deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees,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

The audit reports we reviewed for 1,608 local governmental entities included one or more material weaknesses for 184 entities (11 percent) and one or more significant deficiencies for 159 entities (10 percent). The material weaknesses and significant deficiencies reported primarily related to inappropriate separation of duties, general accounting records, and financial reporting. These percentages are comparable to those for the audit reports we reviewed for the 2014-15 fiscal year, as 13 percent of the 2014-15 fiscal year audit reports included material weaknesses and 9 percent included significant deficiencies.

Of the 1,119 findings included in audit reports that we reviewed, 283 findings (25 percent) were classified as material weaknesses and 241 findings (22 percent) were classified as significant deficiencies. These percentages are comparable to those for the audit reports we reviewed for the 2014-15 fiscal year that had 25 percent of the findings classified as material weaknesses and 24 percent of the findings classified as significant deficiencies. Chart 1 shows the number of material weaknesses and significant deficiencies reported for the 2014-15 and 2015-16 fiscal years.

Chart 1
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 identified categories of findings and grouped the various audit findings included in the county, municipality, or special district 2015-16 fiscal year audit reports by category. Although the

total number of audit reports we reviewed for the 2015-16 fiscal year (1,608) was 3 percent more than the number we reviewed for the 2014-15 fiscal year (1,563), the number of findings increased by less than 1 percent (from 1,111 findings for the 2014-15 fiscal year to 1,119 findings for the 2015-16 fiscal year). The increase in the number and percentage of findings is further discussed under the subheading **Repeated Findings from Previous Fiscal Years.**

Summaries of the predominant and most significant audit findings included in the 2015-16 fiscal year audit reports reviewed for 358 county agencies, 371 municipalities, and 879 special districts are presented below by category. In addition, a summary of the number of findings, by finding category and by type of local governmental entity with comparative prior fiscal year information, is included as **EXHIBIT A** to this report.

Separation of Duties. In 31 of the county agency reports (9 percent), 56 of the municipality reports (15 percent), and 25 of the special district reports (3 percent), findings were noted regarding an inadequate separation of duties or responsibilities. This represents 7 percent of all reports, which is the same percentage of reports with similar findings for the prior fiscal year. Inadequate separation of duties or responsibilities increases the possibility that errors or fraud may occur without timely detection and diminishes the local governmental entity's ability to properly safeguard assets. For many of the reported instances, local government entity personnel contended that, due to the small number of staff, it was not economically feasible to further separate duties or responsibilities. However, the auditors frequently recommended that the entity reassign duties and responsibilities or establish compensating controls.

Budget Administration. In 16 of the county agency reports (4 percent), 28 of the municipality reports (8 percent), and 25 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, which is the same percentage of reports with similar findings for the prior fiscal year. The findings addressed problems relating to the entity's failure to properly adopt a budget, inadequate budgetary policies, failure to budget for all funds or projects, and overexpended budgets. Budgetary problems may affect an entity's ability to demonstrate to the citizenry the proper use of public resources, and could result in inefficient or inappropriate use of resources, resulting in deteriorating financial conditions.

General Accounting Records. In 25 of the county agency reports (7 percent), 53 of the municipality reports (14 percent), and 19 of the special district reports (2 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 6 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings for the prior fiscal year. Recordkeeping deficiencies may reduce an entity's ability to effectively 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. In 34 of the county agency reports (9 percent), 59 of the municipality reports (16 percent), and 44 of the special district reports (5 percent), findings were noted relating to the reporting of financial data either externally or within the local governmental entity. This represents 9 percent of all

reports, which is the same percentage of reports with similar findings for the prior fiscal year. 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 the entity is in sound financial condition and is using public resources in an efficient and appropriate manner.

Cash. In 11 of the county agency reports (3 percent), 33 of the municipality reports (9 percent), and 9 of the special district reports (1 percent), findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks. This represents 3 percent of all reports, which is the same percentage of reports with similar findings for 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. Cash accountability deficiencies increase the risk of unauthorized disbursements and cash losses and thwart the prompt detection of such disbursements and losses.

Capital Assets. In 6 of the county agency reports (2 percent), 29 of the municipality reports (8 percent), and 15 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 3 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings for 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. 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 prompt detection.

Debt Administration. In 12 of the municipality reports (3 percent), and 48 of the special district reports (5 percent), findings were noted regarding failure to make debt principal and interest payments when due, noncompliance with debt reserve requirements, and other noncompliance with bond covenants or other debt agreements. This represents 4 percent of all reports, which is the same percentage of reports with similar findings for the prior fiscal year. Debt administration deficiencies may affect an entity's ability to obtain and repay debt and could contribute to deteriorating financial conditions.

Revenues and Collections. In 13 of the county agency reports (4 percent), 43 of the municipality reports (12 percent), and 6 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, which is the same percentage of reports with similar findings in the prior fiscal year. The findings addressed improper recording of revenue or accounts receivable transactions, improper documentation for receipts, lack of an adequate fee structure, untimely deposits, and deposits not made intact. 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. In 7 of the county agency reports (2 percent), 35 of the municipality reports (9 percent), and 12 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 increase in the percentage of reports with similar findings for 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. Payroll and personnel deficiencies increase the risk that employees may be incorrectly compensated and employee leave balances may not be accurate.

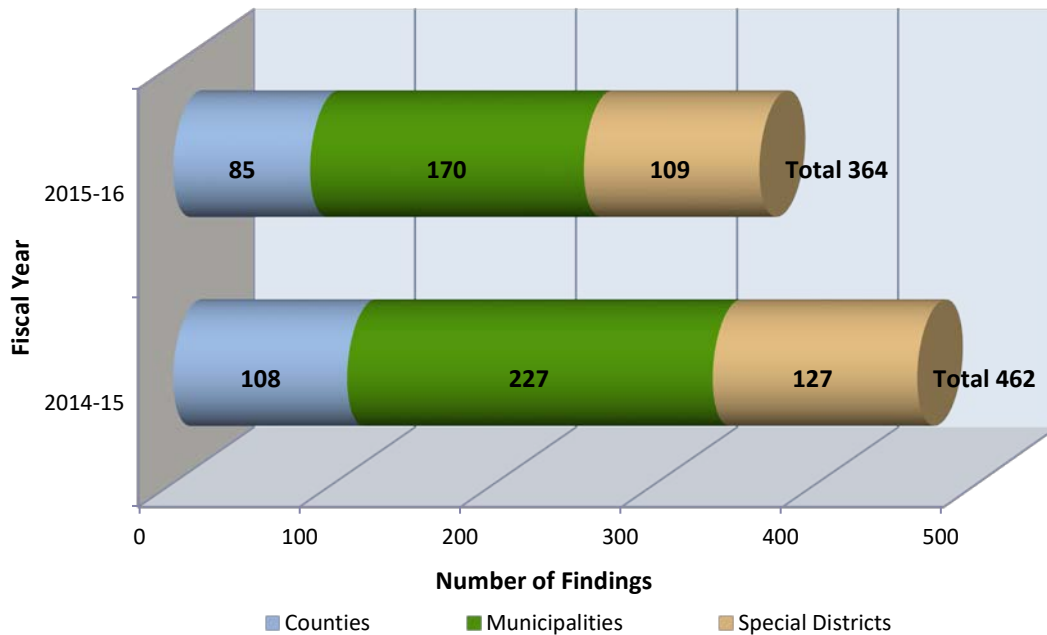
Expenditures and Expenses. In 10 of the county agency reports (3 percent), 20 of the municipality reports (5 percent), and 17 of the special district reports (2 percent), findings were noted regarding the expenditure of public funds. This represents 3 percent of all reports, which is the same percentage of reports with similar findings for 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. Expenditure and expense deficiencies increase the risk of improper payments and the inappropriate or inefficient use of public resources.

Detail of Audit Findings

Rules of the Auditor General²⁰ prescribe the required elements of audit report findings. Of the 1,119 findings included in the audit reports we reviewed, 364 (33 percent) did not include one or more of the required elements, a decrease from the 42 percent of prior fiscal year findings that lacked some of the required elements. Chart 2 illustrates the total number of insufficiently detailed audit findings reported for the 2014-15 and 2015-16 fiscal years.

²⁰ Section 10.557(4)(b), Rules of the Auditor General.

Chart 2
Insufficiently Detailed Audit Findings



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

Although the percentage of insufficiently detailed findings decreased from 42 for the 2014-15 fiscal year to 33 percent for the 2015-16 fiscal year, the total number and percentage of insufficiently detailed findings remains high. Contrary to the Rules of the Auditor General, most of the insufficiently detailed audit 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 (e.g., the number of records examined and the quantity or dollar value of deficiencies noted) to assist audit report users in judging the prevalence and consequences of the finding, such as whether the finding represents an infrequent occurrence or a systemic problem.

Insufficiently detailed 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 and may have contributed to the relatively high percentage of repeated audit findings.

Repeated Findings from Previous Fiscal Years

Of the 1,119 findings included in 2015-16 fiscal year audit reports we reviewed, 423 findings (38 percent) for 246 local governmental entities (52 county agencies, 97 municipalities, and 97 special districts) were also included in the entities' 2014-15 and 2013-14 fiscal year audit reports. This is a decrease when compared to the 453 findings (41 percent) reported in the 2014-15 audit reports that had also been included in the 2013-14 and 2012-13 fiscal year audit reports. This decrease may be attributed, in part,

to the statutory requirement²¹ that requires, beginning with the 2011-12 fiscal year, 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.

FINANCIAL TRENDS

Potential Financial Emergencies

State law²² 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 1,364 local governmental entity 2015-16 fiscal year audit reports submitted to us as through October 2017, disclosed that a total of 55 entities (3 municipalities and 52 special districts) were reported as meeting one or more of these conditions. As shown in Table 3, when compared to our review results for the previous 4 fiscal years, this is the fewest number of entities reported as meeting at least one of the conditions.

²¹ Section 218.39(8), Florida Statutes.

²² Section 218.503(1), Florida Statutes.

Table 3
Local Governments Meeting Specified Conditions
For the 2011-12 Through 2015-16 Fiscal Years

Number of Local Governmental Entities:	Fiscal Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
Meeting one or more of the financial emergency conditions.	90	82	67	58	55
For which the auditor reported the following conditions:					
Failure 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.	86	78	65	56	54
Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.	17	21	6	2	3
Failure 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	2	1
Failure 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 General²³ require the independent auditor to specify whether the condition was a result of deteriorating financial conditions. For 47 of the 55 entities reported as meeting one or more of the specified conditions at the 2015-16 fiscal year end, the auditor indicated that the condition resulted from deteriorating financial conditions.

Deteriorating Financial Conditions

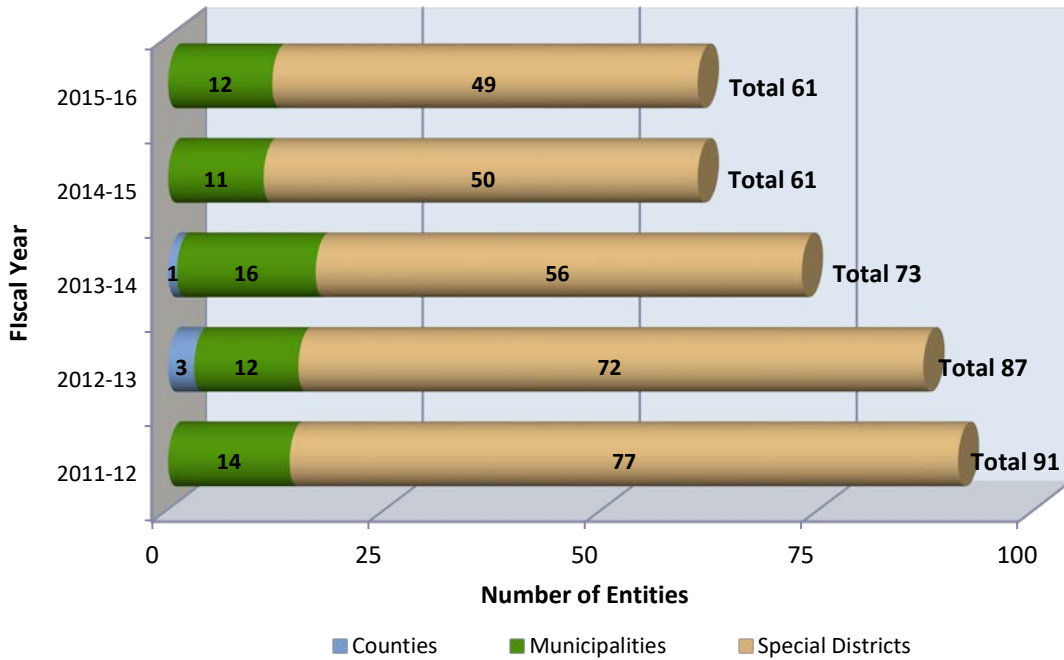
As discussed in the **BACKGROUND** section of this report, Rules of the Auditor General²⁴ require the independent auditor to assess the local governmental entity's financial condition and include management letter recommendations addressing any deteriorating financial conditions disclosed by the audit. 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 a total of 61 entities (12 municipalities and 49 special districts), as experiencing deteriorating financial conditions at the 2015-16 fiscal year end. As illustrated by Chart 3, the total number of local governmental entities reported as experiencing deteriorating financial conditions has decreased each year from the 2011-12 fiscal year through the 2015-16 fiscal year.

²³ Section 10.554(1)(i)5.c.(2), Rules of the Auditor General.

²⁴ Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General.

Chart 3
Entities Reported as Experiencing Deteriorating Financial Conditions
For the 2011-12 Through 2015-16 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 non-homestead properties, and required millage rate reductions and limitations.

As similarly noted for previous calendar years, we found that, on average, less-populated counties had 2016 calendar year millage rates that were higher than those of more-populated counties; however, as shown in Table 4, more-populated municipalities had higher 2016 calendar year millage rates than less-populated municipalities.

Table 4
Populations and Average Tax Rates
2016 Calendar Year

Counties		Municipalities	
Population Range	Average 2016 Millage Rate	Population Range	Average 2016 Millage Rate
< 25,000	8.8054	< 1,000	3.5622
25,000 – 74,999	8.2241	1,000 – 2,999	4.8703
75,000 – 224,999	5.8649	3,000 – 9,999	4.9517
225,000 – 674,999	5.8824	10,000 – 24,999	4.7535
675,000 +	4.9127	25,000 – 99,999	5.1642
		100,000 +	6.3452

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

State law²⁵ limits the ad valorem tax against real property and tangible personal property to 10 mills. Entities with millage rates at or near the statutory maximum may be unable to raise additional funds when needed. For the 2016 calendar year, the average ad valorem millage rate was 6.8891 for counties and 4.7507 for municipalities. Five counties and six municipalities established millage rates of 9.5 mills or greater for the 2016 calendar year while, the millage rates for four counties and seven municipalities were 9.5 mills or greater for the 2015 calendar year. Since the 2007 calendar year, the average millage rate has increased 11 percent for counties and decreased 3 percent for municipalities. A summary of average millage rates, the total taxable property values, and the total taxes levied by counties and municipalities for the 2007 through 2016 calendar years are shown in Table 5.

²⁵ Sections 200.071 and 200.081, Florida Statutes.

Table 5
Average Millage Rates, Taxable Property Values, and Taxes Levied
For the 2007 Through 2016 Calendar Years

Counties				Municipalities			
Year	Average Millage Rate	Taxable Property Values ^a	Taxes Levied ^a	Year	Average Millage Rate	Taxable Property Values ^a	Taxes Levied ^a
2016	6.8891	\$1,607,219,081,691	\$7,966,906,576	2016	4.7507	\$874,867,723,292	\$4,214,939,284
2015	6.8486	\$1,495,400,306,053	\$7,453,181,645	2015	4.6916	\$803,897,891,677	\$3,896,411,050
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	\$1,313,088,962,720	\$6,531,531,203	2013	4.6539	\$695,368,291,486	\$3,334,857,594
2012	6.7232	\$1,274,129,214,427	\$6,226,308,983	2012	4.5917	\$672,164,583,098	\$3,210,789,207
2011	6.5857	\$1,286,288,672,092	\$6,127,195,940	2011	4.4754	\$672,020,162,040	\$3,165,072,038
2010	6.5173	\$1,513,040,958,619	\$6,563,758,622	2010	4.4030	\$698,393,011,166	\$3,259,169,821
2009	6.4761	\$1,516,182,700,604	\$7,160,149,619	2009	4.2082	\$640,706,571,272	\$2,865,244,716
2008	6.2996	\$1,716,561,174,715	\$7,791,725,395	2008	3.9841	\$720,342,482,975	\$2,932,964,640
2007	6.1970	\$1,814,522,802,739	\$8,111,079,346	2007	4.8943	\$933,269,765,607	\$3,926,516,892

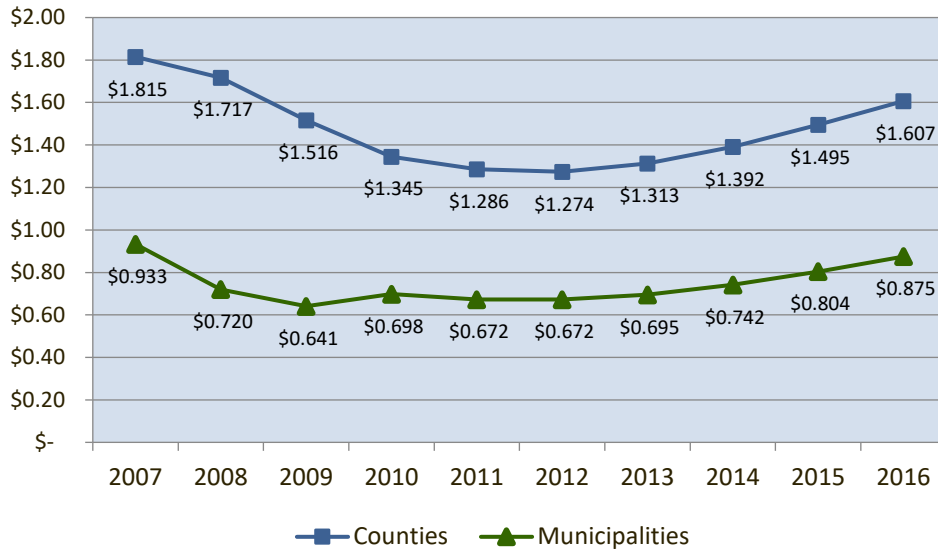
^a Amounts reported may not agree to our prior reports due to information updates included in the Property Valuations and Tax Data by the Florida Department of Revenue.

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

Table 5 also shows that the counties' average millage rates increased for the 2016 calendar year, after a decrease in 2015, continuing the overall trend of annual increases from the 2007 through 2014 calendar years. The municipalities' average millage rates increased each year beginning with the 2009 calendar year.

As depicted in Charts 4 and 5, there was an overall decrease in the taxable property values and taxes levied over the 9-year period 2007 through 2016. Over that period, taxable property values for counties and municipalities decreased by \$207 billion (11 percent) and \$58 billion (6 percent), respectively. Taxes levied decreased by \$144 million (2 percent) for counties and increased by \$288 million (7 percent) for municipalities, for the same period. Additionally, a comparison of 2007 and 2012 calendar year data for counties, shows notable variances, including a decrease in taxable property values and taxes levied. A comparison of the same two periods for municipalities, shows that taxable property values decreased and taxes levied decreased.

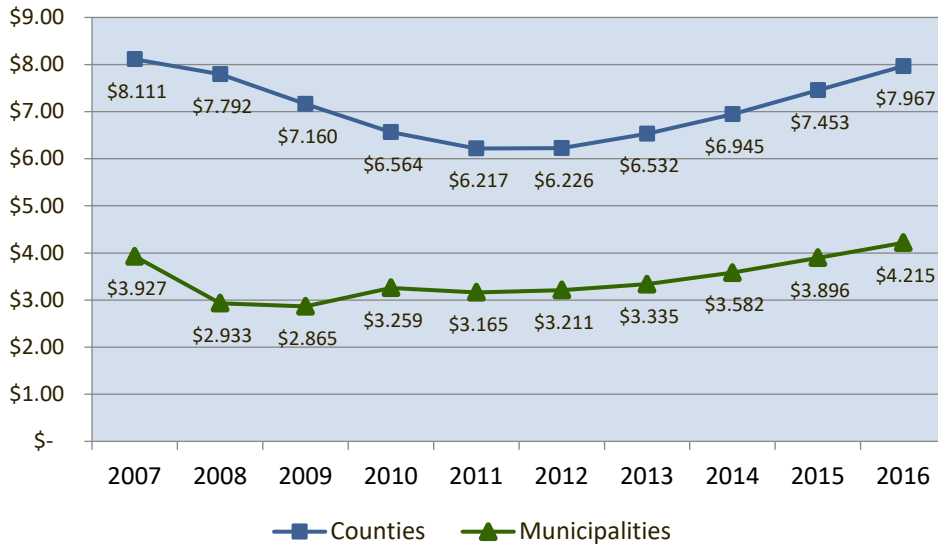
Chart 4
Taxable Property Values
For the 2007 Through 2016 Calendar Years ^a
(In Trillions)



^a Amounts depicted may not agree to those in our prior reports due to information updates included in the Property Valuations and Tax Data by the Florida Department of Revenue.

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

Chart 5
Taxes Levied
For the 2007 Through 2016 Calendar Years ^a
(In Billions)



^a Amounts depicted may not agree to those in our prior reports due to information updates included in the Property Valuations and Tax Data by the Florida Department of Revenue.

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

Pension Plans

We noted that 520 of the 1,311 local governmental entity 2015-16 fiscal year audit reports submitted to us as of July 31, 2017, reported the existence of one or more employee defined benefit pension plans. These 520 audit reports related to 61 counties, 284 municipalities, and 175 special districts. The reported employee defined benefit pension plans include plans for general employees, firefighters, police officers, or some combination thereof (mixed).

Of the 520 local governmental entities reporting employee defined benefit pension plans, 359 local governmental entities (61 counties, 147 municipalities, and 151 special districts) participated in the Florida Retirement System (FRS). In addition, 220 of the 520 local governmental entities reported a total of 414 local pension plans (i.e., plans not part of the FRS), including 376 municipal plans (110 for general employees, 104 for firefighters, 122 for police officers, and 40 mixed pension plans), 35 special district plans (17 for general employees and 18 for firefighters), and 3 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),²⁶ in its best practice publication, *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.

The GFOA recommends that governments adopt funding policies that target a funded ratio²⁷ 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 funded ratios less than 80 percent under standard actuarial assumptions and less than 70 percent under certain “worst-case” actuarial assumptions. The implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 67, *Financial Reporting for Pension Plans*, and 68, *Accounting and Financial Reporting for Pensions*, replaced the funded ratio measurement with the calculation of Plan Fiduciary Net Position as a Percentage of Total Pension Liability²⁸ 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 6 illustrates, for the local pension plans that reported Plan Fiduciary Net Position as a Percentage of Total Pension Liability for the 2015-16 fiscal year as required by GASB Statement Nos. 67 and 68, ranges of reported percentages by local pension plan type (i.e., general employees, firefighters, police

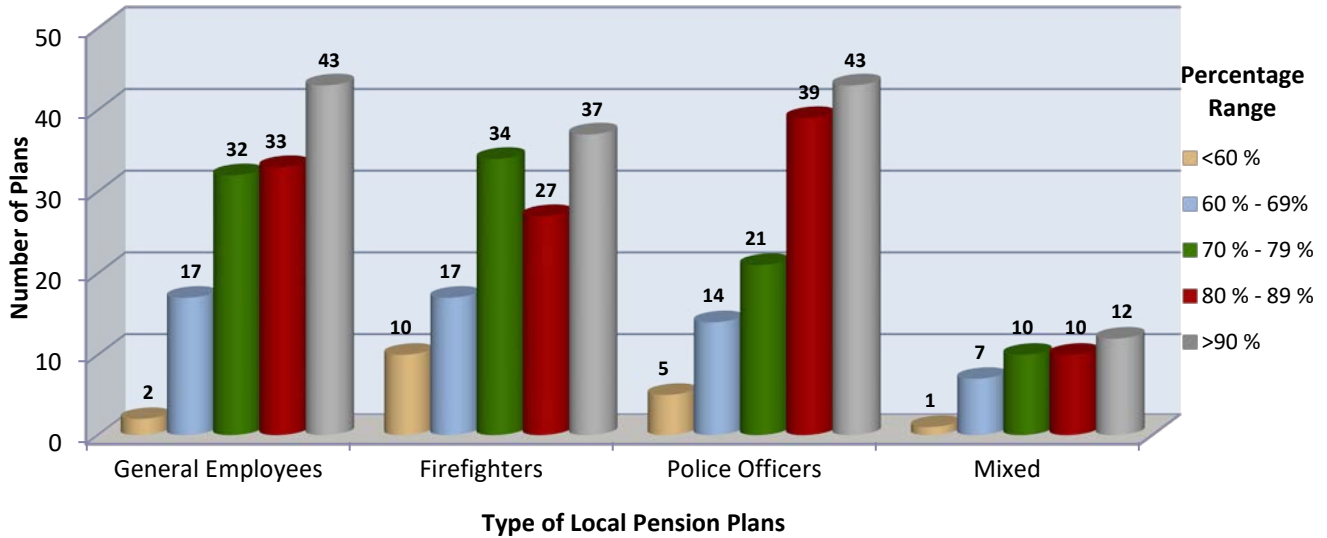
²⁶ The GFOA issues best practices to communicate enhanced techniques and provide information about effective strategies regarding public finance for state and local governments.

²⁷ A pension plan's funded ratio is the percentage of the plan's liabilities covered by its assets.

²⁸ 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.

officers, and mixed). For comparative purposes, as of June 30, 2016, the FRS reported 84.88 percent as the Plan Fiduciary Net Position as a Percentage of Total Pension Liability.

Chart 6
Local Pension Plans Plan Fiduciary Net Position
As a Percentage of Total Pension Liability
As Reported for the 2015-16 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 2005-06 through 2015-16 fiscal years disclosed certain significant financial trends relating to financial equity, results of operations, and other trends. These financial trends are compiled based on our 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 6, 123 entities reported net deficit total assigned and unassigned²⁹ or unrestricted fund equities at the 2015-16 fiscal year end, which represents a 4 percent decrease from the number of entities that reported deficits at the 2010-11 fiscal year end, and a 156 percent increase over the number

²⁹ 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.

of entities that reported deficits at the 2005-06 fiscal year end. Although local governments are not statutorily 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 6
Summary of Analysis of Fund Equities and Results of Operations ^a
For the 2005-06, 2010-11, and 2015-16 Fiscal Years

	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2005-06	2010-11	2015-16	2005-06	2010-11	2015-16	2005-06	2010-11	2015-16	2005-06	2010-11	2015-16
Total Number of Reports Reviewed.	<u>66</u>	<u>66</u>	<u>61</u>	<u>386</u>	<u>377</u>	<u>379</u>	<u>743</u>	<u>925</u>	<u>1,017</u>	<u>1,195</u>	<u>1,368</u>	<u>1,457^b</u>
Number of reports that:												
Reported net deficit total assigned and unassigned or unrestricted fund equity.	2	1	-	7	7	10	39	120	113	48	128	123
Reported no assigned and unassigned or unrestricted fund equity.	-	-	-	1	1	2	71	74	86	72	75	88
Experienced either excess expenditures over revenues in governmental operations or operating losses in proprietary operations.	35	55	47	229	279	250	402	490	512	666	824	809
Experienced net losses when both governmental and proprietary funds were taken into account.	21	48	36	142	206	151	393	484	501	556	738	688
Experienced net losses and reported net deficit assigned and unassigned or unrestricted fund equity.	-	1	-	4	7	9	66	99	87	70	107	96

^a For the 2015-16 fiscal year, 2 municipalities and 37 special districts reported no assigned and unassigned or unrestricted fund equity, and 1 municipality and 19 special districts reported net deficit total assigned and unassigned or unrestricted fund equity in their annual financial reports. Also, 5 municipalities and 59 special districts reported losses in either governmental or proprietary funds, and 4 municipalities and 56 special districts reported net losses when both governmental and proprietary funds were considered in the 2015-16 fiscal year annual financial reports. For the 2005-06 fiscal year, pre-GASB Statement No. 54 terminology (i.e., unreserved or unrestricted fund equity) was used for the fund equity amounts.

^b For the 2015-16 fiscal year, the total includes the 1,311 audit reports received through July 31, 2017, and 146 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 688 entities, or 47 percent of the entities whose reports we reviewed, experienced net losses when both governmental and proprietary funds were taken into account for the 2015-16 fiscal year. This percentage is comparable to the 47 percent of the local governmental entities whose reports were reviewed for the 2005-06 fiscal year and less than the 54 percent of entities whose reports we reviewed for the 2010-11 fiscal years. However, counties reported significant changes,

as the percentage of entities that experienced net losses decreased from 72 percent for the 2010-11 fiscal year to 59 percent for the 2015-16 fiscal year.

For the 2005-06, 2010-11, and 2015-16 fiscal years, the percentage of entities reviewed with net losses (combining both governmental and proprietary funds) were 47 percent (556 of 1,195 reports), 54 percent (738 of 1,368 reports), and 47 percent (688 of 1,457 reports), respectively. Additionally, of the 688 entities that experienced net losses for 2015-16 fiscal year operations, 96 entities (7 percent of the 1,457 reports reviewed) also reported net deficit total assigned and unassigned or unrestricted fund equities at the 2015-16 fiscal year end. Continued net losses 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 93 audited entities (7 municipalities and 86 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities at the 2015-16 fiscal year end, as compared to 125 at the 2010-11 fiscal year end, but 5 fewer than the 98 entities that similarly reported cash and investments at the 2005-06 fiscal year end. In addition, 46 special districts reported cash and investments in amounts not sufficient to cover current liabilities at the 2015-16 fiscal year end. 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 necessary to meet its current needs.

Long-term debt reported for governmental activities totaled \$27.4 billion at the 2015-16 fiscal year end, a decrease of \$3.6 billion, or 12 percent, compared to \$31 billion at the 2010-11 fiscal year end, for the audit reports we received for those fiscal years. While local governments are statutorily authorized to enter into long-term debt arrangements, for example, to fund construction projects or repay or refinance older debt that has not been paid off, it is important to consider current revenue streams and other available resources to ensure debt service requirements are met and to reduce debt as appropriate.

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 provided to us from the Department of Financial Services (DFS) were to:

- Identify significant findings based on our review of the audit reports.
- Identify financial trends using information from the audit reports and annual financial reports.

Although all local governmental entities are required to file annual financial reports with the DFS,³⁰ all references to annual financial reports in this report pertain to those for entities without audited financial statements. As a result, the financial trends based on annual financial reports included in this report are based on unverified amounts.

The scope of this project included a review of the independent auditor-prepared 2015-16 fiscal year audit reports submitted to us by July 31, 2017, for 61 counties (which included 358 individual county agency reports), 371 municipalities, and 879 special districts. The scope also included 8 municipality and 138 special district annual financial reports (submitted to the DFS and provided to us) of entities that were not required to provide for an audit. In addition, the scope included a review of audit reports received for 1,364 entities (64 counties, 381 municipalities, and 919 special districts) through October 2017, to identify entities that were reported as having met a condition specified in State law,³¹ or having deteriorating financial conditions.

Our methodology included a review of applicable audit reports and annual financial reports and a compilation of significant findings and financial trends. We included 1,608 entities (358 county agencies, 371 municipalities, and 879 special districts) in our analysis of significant findings. We included 1,311 entities (61 counties, 371 municipalities, and 879 special districts) in our analysis of significant financial trends (except for Table 6, where we also included annual financial reports for 8 municipalities and 138 special districts). 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 findings and financial trends included in this report.

³⁰ Section 218.32(1)(e), Florida Statutes.

³¹ Section 218.503(1), Florida Statutes.

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, financial trend information obtained from local governmental entity annual financial reports, for the 2015-16 fiscal year.



Sherrill F. Norman, CPA
Auditor General

EXHIBIT A

SUMMARY OF AUDIT FINDINGS BY FINDING CATEGORY AND LOCAL GOVERNMENTAL ENTITY TYPE FOR THE 2014-15 AND 2015-16 FISCAL YEARS

Category	Number of	County Agencies		Municipalities		Special Districts		Totals	
		Fiscal Year		Fiscal Year		Fiscal Year		Fiscal Year	
		2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Separation of Duties - Findings related to inadequate separation of duties.	Findings	35	31	54	57	27	25	116	113
	Entities	35	31	54	56	27	25	116	112
Budget Administration – Findings related to inadequate budgetary controls or noncompliance with legal requirements relating to budgets.	Findings	6	16	26	31	25	25	57	72
	Entities	6	16	26	28	25	25	57	69
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).	Findings	32	28	76	68	21	22	129	118
	Entities	26	25	64	53	20	19	110	97
Financial Reporting - Findings related to reporting of financial data externally or within the local governmental entity.	Findings	40	35	57	61	53	45	150	141
	Entities	36	34	54	59	50	44	140	137
Cash – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks.	Findings	11	12	36	35	8	10	55	57
	Entities	10	11	33	33	6	9	49	53
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.	Findings	13	6	36	30	17	18	66	54
	Entities	11	6	32	29	15	15	58	50
Debt Administration - Findings related to noncompliance with bond covenants or loan agreements and failure to make debt service payments.	Findings	1	-	18	13	72	67	91	80
	Entities	1	-	17	12	50	48	68	60
Revenues and Collections - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable.	Findings	17	16	61	52	8	6	86	74
	Entities	15	13	46	43	6	6	67	62
Payroll and Personnel Administration - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration.	Findings	4	7	35	43	11	15	50	65
	Entities	4	7	26	35	9	12	39	54
Expenditures and Expenses - Findings related to the expenditure of public funds.	Findings	11	13	22	23	14	17	47	53
	Entities	11	10	18	20	13	17	42	47
Other Findings	Findings	60	63	145	156	59	73	264	292
	Entities	47	50	111	122	54	65	212	237
Total Number of Findings		230	227	566	569	315	323	1,111	1,119

Note: Some entities had more than one finding in each category. In total, findings were included in audit reports for 116 county agencies, 197 municipalities, and 173 special districts.

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