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Performance Audit

**LOCAL GOVERNMENT
FINANCIAL REPORTING SYSTEM**



Sherrill F. Norman, CPA
Auditor General

The team leader was Shane L. Herman, CPA, and the audit was supervised by Derek H. Noonan, CPA.

Please address inquiries regarding this report to Michael J. Gomez, CPA, Audit Manager, by e-mail at mikegomez@aud.state.fl.us or by telephone at (850) 412-2881.

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LOCAL GOVERNMENT FINANCIAL REPORTING SYSTEM

SUMMARY

Pursuant to Section 11.45(2)(g), Florida Statutes, this performance audit of the local government financial reporting system focused on determining the accuracy, efficiency, and effectiveness of the system in achieving its goals; how the reporting system can be improved; and how program costs can be reduced. Our audit also included a follow-up on selected findings noted in our report Nos. 2009-014, 2011-196, and 2015-037. Our audit disclosed the following:

Finding 1: State law could be enhanced to require local governments to establish policies and procedures requiring audit committee members to have a basic understanding of governmental financial reporting and auditing. State law could also be enhanced to require that at least one audit committee member, or a person consulted by the audit committee, have an understanding of generally accepted accounting principles and experience preparing or auditing governmental entity financial statements.

Finding 2: Community redevelopment agencies (CRAs) could improve procedures to ensure that annual trust fund audit reports include all information required by State law. In addition, the Legislature could consider amending State law to require auditors of CRA trust funds to determine and report whether the CRAs complied with State laws governing the use and disposition of CRA trust fund moneys.

Finding 3: Statutory requirements for annual audits of the local government escrow accounts maintained to accumulate financial resources for the proper closing and long-term care of landfills could be clarified to ensure that the audits are properly and consistently conducted in accordance with Legislative intent.

Finding 4: Statutory requirements for annual statements of county compliance for court-related functions could be clarified to ensure that the statements are properly and consistently prepared in accordance with Legislative intent.

Finding 5: The Executive Office of the Governor (EOG) did not always promptly make state of financial emergency determinations for local governmental entities that met a specified condition in State law or notify the Legislative Auditing Committee of local governmental entities that did not timely respond to EOG information requests.

Finding 6: The Department of Financial Services (DFS) did not always timely assign annual financial report (AFR) verification responsibilities to DFS personnel nor was AFR information always timely verified. We also identified 80 local governmental entities required to submit 2014-15 fiscal year audit reports to the DFS that did not submit the reports, and DFS records did not always evidence attempts to obtain the reports from those entities. In addition, our comparison of the 2014-15 fiscal year verified report totals generated from the DFS Web-based Local Government Electronic Reporting system to the related AFR data for 10 entities disclosed that the verified report excluded revenues totaling \$14.3 million and expenditures totaling \$14 million that were reported in the individual entity AFRs. Further, DFS records did not evidence electronic or paper copies of the December 2016 verified report provided to statutorily specified parties nor the basis for the data included in the report.

BACKGROUND

For purposes of State law,¹ the local government financial reporting system means any statutory provision related to local government² financial reporting. There are numerous statutory provisions related to local government financial reporting established in State law, for example:

- Section 29.0085, Florida Statutes, requires each county to annually submit to the State Chief Financial Officer (CFO) a statement of revenues and expenditures in the form and manner prescribed by the CFO. State law also requires that, by January 31 of each year, each county submit to the CFO a statement of compliance from its independent certified public accountant engaged to conduct its annual financial audit indicating that the certified statement of expenditures was in accordance with State law.
- Section 163.387(8), Florida Statutes, requires community redevelopment agencies to obtain an annual audit of the community redevelopment trust funds.
- Section 218.32(1), Florida Statutes, requires local governmental entities to submit to the Department of Financial Services (DFS) an annual financial report (AFR) and, if the local governmental entities meet the audit threshold specified in State law, a copy of their audit report.
- Section 218.32(2), Florida Statutes, requires the DFS to annually file, by December 1, a verified report with certain statutorily specified entities showing the total revenues, expenditures, and outstanding long-term debt of each local governmental entity, regional planning council, local government finance commission, and municipal power corporation entity that is required to submit an AFR.
- Section 218.39, Florida Statutes, requires an annual financial audit of accounts and records be completed within 9 months after the end of the fiscal year for counties, district school boards, charter schools, and charter technical career centers and certain municipalities and special districts.
- Section 403.7125(2), Florida Statutes, requires local governments that own or operate a landfill to obtain an audit of the interest-bearing escrow account maintained to ensure the availability of financial resources for the proper closure and long-term care of the landfill.

The local government financial reporting system provisions included in the scope of this audit are described in the **FINDINGS AND RECOMMENDATIONS** and **OBJECTIVES, SCOPE, AND METHODOLOGY** sections of this report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Audit Committees

Financial audits of local governmental entities performed by independent certified public accountants (CPAs) pursuant to State law³ provide:

- Assurance of the reliability and completeness of local government financial statements.

¹ Section 11.45(2)(g), Florida Statutes.

² The term “local government” refers to local governmental entities as defined in Section 218.31(1), Florida Statutes (i.e., counties, municipalities, and special districts).

³ Section 218.39, Florida Statutes.

- A means for evaluating the effectiveness of local government internal control over financial reporting.
- A determination of the extent to which local governments complied with applicable laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on local government financial statement amounts.

Pursuant to State law, a local governmental entity must select a financial auditor by establishing an audit committee to assist in the selection of the auditor. The audit committee responsibilities include publicly announcing the need for audit services and using requests for proposals. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls; that procedures are in place to objectively assess management's practices; and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.

According to the Government Finance Officers Association (GFOA),⁴ an audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government financial reporting processes, internal controls, and independent auditors. The GFOA recommends that the audit committee be established by charter, enabling resolution, or other appropriate legal means. In addition, GFOA best practices include recommendations that each audit committee member have a basic understanding of governmental financial reporting and auditing and that at least one audit committee member, or a person consulted by the audit committee, have an understanding of generally accepted accounting principles (GAAP) and financial statements. While the GFOA did not explain what constitutes a basic understanding of governmental financial reporting and auditing or an understanding of GAAP and financial statements, entity-defined education and experience requirements for committee members could help ensure the members possessed the qualifications to fulfill their responsibilities.

As part of our audit, we sent surveys regarding audit committees to the 1,311 local governmental entities that, as of September 15, 2017, had submitted a 2015-16 fiscal year audit report to us. We received survey responses from 394 entities. The survey responses indicated that:

- 158 (40 percent) of the 394 entities did not have an ordinance, resolution, or written policies and procedures addressing the audit committee required by State law. Appropriately established audit committees with defined responsibilities and committee member qualifications would help ensure that financial auditors are properly selected in accordance with State law.
- 236 entities had ordinances, resolutions, or written policies and procedures addressing the audit committee. However, 137 (58 percent) of those entities' ordinances, resolutions, or written policies and procedures did not incorporate the GFOA-recommended audit committee best practices requiring each audit committee member to have a basic understanding of governmental financial reporting and auditing and at least one audit committee member, or a person consulted by the audit committee, to have an understanding of GAAP and financial statements.

Recommendation: We recommend that the Legislature consider revising State law to require local governmental entities to establish ordinances, resolutions, or policies and procedures to define audit committee responsibilities and audit committee member qualifications consistent with applicable GFOA best practices.

⁴ GFOA Best Practice, *Audit Committees* (October 2008).

Finding 2: Community Redevelopment Agency Trust Fund Audits

State law⁵ authorizes the creation of community redevelopment agencies (CRAs) by counties and municipalities for the purpose of redeveloping slums and blighted areas and areas that are injurious to the public health, safety, morals, and welfare of residents and for which there is a shortage of housing affordable to residents of low and moderate income, including the elderly. State law also provides requirements that address CRA powers, funding, expenditure restrictions, and reporting and audit requirements.

A CRA is funded through tax increment financing whereby, generally, the CRA annually receives 95 percent of the difference between the amount of ad valorem taxes levied by each taxing authority (exclusive of amounts derived from debt service millage) on taxable properties within the designated community redevelopment area and the amount of taxes that would have been produced by the millage rates levied by the taxing authorities prior to the effective date of the ordinance providing for the funding. State law⁶ requires CRAs to provide for an audit of their trust fund each fiscal year and a report of such audit be prepared by an independent CPA or firm. As such, State law clearly contemplates an audit and resulting audit report with the scope and opinion focused on the CRA trust funds.

State law also requires the audit report to describe:

- The amount and source of deposits into, and the amount and purpose of withdrawals from, the trust fund during the fiscal year.
- The amount of principal and interest paid during the fiscal year on any indebtedness to which increment revenues are pledged and the remaining amount of such indebtedness.

Therefore, it is important for CRA personnel to understand these reporting requirements and that all applicable reporting requirements be addressed in the CRA contracts with CPAs.

Our examination of audit reports prepared pursuant to State law⁷ disclosed that CRA trust funds are reported in a variety of ways. For example, in county and municipality audit reports, CRA trust funds are typically presented in the financial statements as a single column identified solely as the CRA trust fund or included in a column presenting the aggregate of the CRA trust fund and other county or municipality funds. Alternatively, CRA trust funds may be presented in financial statements that are included in an audit report separate from the audit report of the authorizing county or municipality.

To determine whether CRAs appropriately provided for audits of the CRA trust funds and the audit reports included the required information, we examined the audit reports related to 60 CRAs selected from the population of 220 CRAs listed on the February 2017 Department of Economic Opportunity's "Official List of Special Districts." We reviewed the applicable 2014-15 fiscal year audit reports and noted that the activities of 59 CRAs were included in the respective county or municipality financial audit report and that 1 CRA provided for a separate audit report. We also found that:

- 6 (10 percent) of the 59 county and municipality audit reports reported the CRA trust funds as nonmajor funds, which were aggregated and presented in a single column along with the local

⁵ Chapter 163, Part III, Florida Statutes, also known as the "Community Redevelopment Act of 1969."

⁶ Section 163.387(8), Florida Statutes.

⁷ Section 218.39, Florida Statutes.

government's other nonmajor funds and did not provide a separate opinion on the CRA trust fund. This presentation did not comply with State law as the scope of the audits and related audit opinions did not focus on the CRA trust funds. As such, the audit reports did not provide a means for evaluating the adequacy of internal controls over CRA trust fund activities or the extent to which such activities were administered in accordance with applicable laws, rules, and governing policies.

- 4 (7 percent) of the 59 audit reports, including 3 of the 6 audit reports that aggregated CRA activities with other nonmajor funds and 1 other audit report that reported a CRA as a discretely presented component unit within its primary government's financial statements, did not describe the amount and source of deposits into, and the amount and purpose of withdrawals from, the trust fund during the fiscal year. Absent such descriptions, the audit reports did not comply with State law and do not provide essential information necessary for audit report users' evaluation of CRA trust fund activities.

These instances of noncompliance with State law may have occurred because the CRAs and their auditors were not aware of or misunderstood the statutorily required information that must be included in the audit reports.

In addition, our operational audits of CRAs⁸ have disclosed uses of CRA trust fund moneys that did not always appear to be in accordance with approved CRA plans or were otherwise used for purposes contrary to State law and undocumented statutory compliance regarding the disposition of unexpended CRA trust fund moneys. However, State law does not require auditors of CRA trust funds to determine and report whether CRAs complied with State laws governing the use and disposition of CRA trust fund moneys.

Requiring the CRA trust fund audit to include a determination of compliance with laws governing the use and disposition of CRA trust fund moneys would improve accountability for CRA resources and provide additional transparency for those taxing authorities required to remit tax increment revenues to a CRA. A similar finding was noted in our report No. 2015-037, Finding No. 5.

Recommendation: CRAs should enhance procedures to ensure that annual trust fund audit reports include all the information required by State law. Such enhancements could include appropriate training to ensure CRA personnel understand the statutory audit report requirements and that CRA contracts with auditors address those requirements. Additionally, the Legislature should consider amending State law to require that auditors of CRA trust funds determine and report whether CRAs complied with State laws governing the use and disposition of CRA trust fund moneys.

Finding 3: Landfill Escrow Account Audits

State law⁹ requires every local government that owns or operates a landfill to establish a fee, or a surcharge on existing fees or other appropriate revenue-producing mechanism, to ensure the availability of financial resources for the proper closure of the landfill.¹⁰ The revenue is to be deposited in an

⁸ Examples of our operational audits of CRAs include the City of Hollywood CRA Operational Audit (report Nos. 2015-183 and 2013-093) and the Delray Beach CRA Operational Audit (report Nos. 2016-028 and 2014-013).

⁹ Section 403.7125(2), Florida Statutes.

¹⁰ As an alternative, pursuant to Section 403.7125(3), Florida Statutes, a local government may utilize surety bonds, certificates of deposit, securities, letters of credit, or other documents showing that the local government has sufficient financial resources to provide for proper closure of the landfill.

interest-bearing escrow account to be held and administered by the local government and the local government must obtain an audit of the account conducted by an independent CPA. Florida Department of Environmental Protection (DEP) rules¹¹ require the local governments to:

- File with the DEP no later than March 31 of the following year:
 - A signed duplicate original of the escrow agreement.
 - The audit report that references DEP rules¹² and the escrow agreement and includes a list, by date, of all deposits and withdrawals made.
- Identify where funds are on deposit.
- Provide the landfill management escrow account balance as of the end of the fiscal year.
- Itemize, by facility, amounts restricted for closing and long-term care.

Our review of DEP records and discussions with DEP personnel regarding landfill management escrow accounts disclosed that there were 76 local government landfill facilities for which an escrow account audit for the 2015-16 fiscal year was required to be obtained. We also found that the DEP received 55 escrow account audit reports for the 2015-16 fiscal year addressing 75 of the landfill facilities.¹³ Our review of the 55 audit reports and consideration of the provisions of State law governing the audit requirement disclosed that the usefulness of the required audits could be enhanced by additional provisions in State law requiring:

- CPAs, as part of their audit responsibilities, to opine on the accuracy of local government reported escrow account balances and to determine whether the accounts contained sufficient financial resources for the proper closure of the landfill. In 43 of the 55 audit reports we reviewed, the CPAs opined on the accuracy of local government reported escrow account balances on the schedules of escrow account activities; however, for the 12 other reports, the CPAs did not opine on the account balances nor include schedules of escrow account activities in the reports. In addition, none of the 55 audit reports indicated whether the local governments complied with State law by ensuring the escrow accounts had sufficient financial resources for proper closure of the landfills.
- CPAs to follow specified professional standards, such as the American Institute of Certified Public Accountants (AICPA) auditing standards or generally accepted government auditing standards (GAGAS), while conducting the audits. We found that CPAs sometimes referenced use of different auditing standards. Specifically:
 - In 43 audit reports, CPAs referenced use of AICPA auditing standards¹⁴ for audits of single financial statements and specific elements, accounts, or items of a financial statement, and opined on the schedule of escrow account activities.
 - In 12 audit reports, CPAs referenced use of GAGAS for audits of local governmental entity financial statements and included a footnote to the financial statements to address the escrow account audit requirement.

¹¹ DEP Rule 62-701.630, Florida Administrative Code (FAC).

¹² DEP Rule 62-701.630(5), FAC.

¹³ An escrow account audit report had not been received for 1 landfill facility and several audit reports encompassed more than one landfill facility.

¹⁴ *AICPA Professional Standards* AU-C Section 805.

Specifying the professional standards for CPAs to use for the escrow account audits would provide consistency in the audit methodology and reporting and, therefore, make the results presented in the audit reports more comparable for report users.

- DEP personnel to verify that the audit reports include required information in accordance with DEP rules. We noted that the reports did not always include information required by DEP rules.¹⁵ Specifically:
 - 38 audit reports did not reference the escrow agreement.
 - 20 audit reports did not include a statement as to where the escrow funds are deposited.
 - 17 of the 37 applicable audit reports for escrow accounts with either deposits or withdrawals did not include a list, by date, of all the deposits and withdrawals.
 - 10 audit reports did not include an itemization, by facility, of amounts restricted for landfill closing and long-term care.
- Penalties or other consequences be assessed for landfill owners and operators who do not timely submit the audit reports to the DEP or submit audit reports that lack required information. Such assessments would help discourage untimely and incomplete reports.

Absent statutory provisions delineating the CPA responsibilities for auditing local government escrow accounts, there is an increased risk for CPAs to misunderstand the legislative intent for these audits, apply excessive or insufficient audit procedures, and include excessive information in, or exclude necessary information from, the audit reports. As a result, the local governments may experience significant audit cost variances for these services. In addition, without a statutory requirement for DEP personnel to verify that the audit reports include required information and without the assessment of penalties or other consequences for landfill owners and operators when audit reports are not timely submitted or when audit reports lack required information, there is an increased risk that report users will lack the information necessary to properly evaluate local government landfill owner and operator efforts to provide sufficient financial resources for landfill closures.

Recommendation: We recommend that the Legislature consider revising State law governing local government escrow account audits to require:

- **CPAs to opine on the accuracy of local-government-reported escrow account balances and disclose in the audit reports whether the local governments complied with State law by ensuring that the escrow accounts had sufficient financial resources for proper closure of the landfills.**
- **CPAs to follow specified professional standards, such as AICPA auditing standards or GAGAS, when conducting the audits.**
- **DEP personnel to verify that the audit reports include required information in accordance with DEP rules.**
- **Penalties or other consequences be assessed for landfill owners and operators who do not timely submit audit reports to the DEP or submit audit reports that lack required information.**

¹⁵ Department of Environmental Protection Rule 62-701.630(5)(c), FAC.

Finding 4: Statements of County Compliance

As required by the State Constitution,¹⁶ and implemented by State law,¹⁷ counties are required to fund the cost of communications services, existing radio systems, existing multiagency criminal justice information systems, and the cost of construction or lease, maintenance, utilities, and security of facilities for the circuit and county courts, public defenders' offices, state attorneys' offices, guardian ad litem offices, and the offices of the clerks of the circuit and county courts performing court-related functions. Additionally, counties are required to pay reasonable and necessary salaries, costs, and expenses of the State Courts System to meet local requirements specified in State law.

To provide oversight over county expenditures for court-related functions, State law¹⁸ requires each county to annually submit to the State Chief Financial Officer (CFO) a statement of revenues and expenditures in the form and manner prescribed by the CFO. To help implement this requirement, the Department of Financial Services (DFS) adopted rules¹⁹ that require counties to submit to the CFO a statement of county-funded court-related functions report (functions report) that lists respective county revenues and expenditures. Additionally, State law requires that, by January 31 of each year, each county submit to the CFO a statement of compliance from its independent CPA engaged to conduct its annual financial audit indicating that the certified statement of expenditures (in the functions report) was in accordance with State law. Any discrepancies noted by the CPA are to be included in the statement of compliance furnished by the county to the CFO, and DFS rules²⁰ require the statement of compliance to accompany the functions report. To further verify statutory compliance, State law²¹ requires the DFS to determine whether for the fiscal year the counties expended 1.5 percent more for certain court-related functions than the amount expended in the prior fiscal year.

Our review of the 67 counties' CPA statements of compliance submitted to the CFO for the 2015-16 fiscal year and consideration of the provisions of State law governing the functions reports and statements of compliance disclosed that additional statutory provisions could enhance the assurances provided by the reports and statements. Specifically:

- Specifying in State law the professional standards for CPAs to follow, such as the AICPA examination attestation standards or AICPA auditing standards, when conducting the audits would provide consistency in the audit methodology and reporting and, therefore, make the costs of the audits and the results presented in the audit reports more comparable. For the 67 CPA statements of compliance we found that the CPAs:
 - Referenced use of AICPA examination attestation standards²² in 27 statements.
 - Referenced use of AICPA auditing standards²³ in 23 statements.

¹⁶ Article V, Section 14 of the State Constitution.

¹⁷ Section 29.008, Florida Statutes.

¹⁸ Section 29.0085, Florida Statutes.

¹⁹ DFS Rule 69I-69.002, FAC.

²⁰ DFS Rule 69I-69.002(2), FAC.

²¹ Section 29.008(4)(a), Florida Statutes.

²² *AICPA Professional Standards* AT Section 101.

²³ *AICPA Professional Standards* AU-C Section 805.

- Referenced use of AICPA agreed-upon procedures attestation standards²⁴ in 14 statements.
- Did not reference use of any professional standards in 3 statements.
- Requiring DFS personnel to verify that the CPA statements of compliance were prepared in accordance with the requirements in State law, DFS rules, and applicable professional standards. We found that:
 - Contrary to DFS rules, 18 statements of compliance were not accompanied by a functions report. Absent the functions report, users of the 18 statements of compliance may not have access to the expenditure amounts and other expenditure information that, according to the CPAs, were in accordance with State law.
 - Contrary to AICPA agreed-upon procedures attestation standards,²⁵ the 14 statements of compliance referencing use of those standards only indicated that the CPA performed tests of county compliance with State law²⁶ and did not specify the exact nature of the tests. CPAs who adhere to AICPA agreed-upon procedures attestation standards, are prohibited from using terms of uncertain meaning, such as “test,” to describe the procedures performed.²⁷
- Requiring penalties or other consequences be assessed for counties who do not submit CPA statements of compliance to the DFS or submit statements that do not comply with State law, DFS rules, or applicable professional standard requirements.

In addition, the law could be clarified as to what provisions of law are the subject of the CPAs determination of compliance. We noted that CPAs did not always audit county compliance with the same statutory requirements. For example, regarding whether the counties complied with the requirement to expend 1.5 percent more court-related function expenditures than expended in the prior fiscal year, we found that the CPAs who audited:

- 45 counties did not indicate in the statements of compliance that they had determined county compliance with that requirement.
- 18 counties determined that the counties did not comply with that requirement.
- 4 counties determined that the counties complied with that requirement.

Since State law requires the DFS, not the CPAs, to make this determination, CPA determination efforts for the 22 county audits appear unnecessary and duplicative of DFS procedures.

Without clearly prescribing what provisions of law are to be addressed in the CPAs’ determinations of compliance, and identifying the professional standards to follow, there is an increased risk of substandard engagements, inconsistencies in audit procedures, and audit cost variances. In addition, without a statutory requirement for DFS personnel to verify that CPA statements of compliance are properly prepared and establishing penalties or other consequences to be assessed for counties when the statements are not submitted or submitted statements do not comply with the requirements in State law, DFS rules, and applicable professional standards, there is an increased risk that statements of compliance users will lack necessary information to properly evaluate whether counties complied with county court-related funding requirements.

²⁴ AICPA Professional Standards AT Section 201.

²⁵ AICPA Professional Standards AT Section 201.31i.

²⁶ Sections 29.008 and 29.0085, Florida Statutes.

²⁷ AICPA Professional Standards AT Section 210.16.

Recommendation: The Legislature should consider revising State law governing CPA statements of compliance to:

- **Require CPAs to follow specified professional standards, such as AICPA examination attestation standards or AICPA auditing standards, when conducting the audits.**
- **Require DFS personnel to document verification that the CPA statements of compliance were prepared in compliance with State law, DFS rules, and applicable professional standards.**
- **Require penalties or other consequences be assessed for counties that do not submit CPA statements of compliance to the DFS or submit statements that do not comply with the requirements in State law, DFS rules, or applicable professional standards.**
- **Clarify what provisions of law should be addressed in the CPAs' determinations of compliance so that the CPAs' determinations are not duplicative of the compliance determinations the DFS is required to make.**

Finding 5: State of Financial Emergency

State law²⁸ requires that local governmental entities be subject to review and oversight by the Governor when one or more of the conditions specified in State law have occurred or will occur if action is not taken by the State to assist the local governmental entity. For example, one such condition is the failure to make bond debt service or other long-term debt payments when due as a result of a lack of funds.

Upon being notified of a specified condition, the Executive Office of the Governor (EOG) must contact the entity to determine what actions had been taken to resolve or prevent the specified condition. Within 45 days after the date of the request, the entity must provide the EOG with the requested information. If the information is not provided within 45 days of the request, the EOG must notify the Legislative Auditing Committee (LAC).²⁹ The LAC has authority to direct the Department of Revenue and the DFS to withhold, until the entity complies with State law, any funds payable to such entity not pledged for bond debt service satisfaction.

During the period October 2015 through December 2016, the EOG received notifications for 64 local governmental entities that had either met a specified condition or would meet a specified condition unless action was taken to assist the entity. To determine whether the EOG promptly took appropriate action, we examined EOG records supporting notifications for 32 of the 64 entities and found that the EOG:

- Received notifications for 6 community development districts (CDDs) that had defaulted on debt payments due to a lack of funds. Although the EOG received the requested information from the 6 CDDs within the 45-day time frame, the EOG did not make state of financial emergency determinations for the 6 entities until after our inquiries, 186 to 196 days after the EOG received the notifications. In response to our inquiries about the delays, EOG personnel indicated that they needed extra time to research the specifics related to the debt defaults and that the EOG determined none of the 6 entities were in a state of financial emergency. Notwithstanding, delays in determining whether an entity is in a state of financial emergency could result in the entity not timely receiving needed assistance from the State.

²⁸ Section 218.503(1), Florida Statutes.

²⁹ Section 218.503(3), Florida Statutes.

- Did not promptly notify the LAC that 3 of the entities failed to provide requested information within the 45-day time frame. Specifically:
 - In February 2016, the EOG requested information from an entity regarding a 2012-13 fiscal year condition and the entity did not respond to the request; however, the EOG did not notify the LAC that the entity did not respond. In August 2016, the EOG sent another information request to the same entity regarding a 2013-14 fiscal year condition and the entity responded. EOG personnel indicated that the response to the 2013-14 fiscal year information request clarified matters and alleviated EOG concerns for both years.
 - For another entity, EOG personnel indicated that the LAC was not promptly notified because the EOG sent out a second information request to the entity. However, the EOG sent the second information request 210 days after the initial information request, which was 165 days after the 45-day time frame had elapsed.
 - Subsequent to our inquiry in April 2017, the EOG notified the LAC that 1 entity did not fulfill an information request; however, the LAC notification was 356 days after the EOG's initial information request.

In response to our inquiries regarding the delayed LAC notifications, EOG personnel indicated that State law³⁰ did not specify a time frame for notifying the LAC. Notwithstanding the lack of a statutorily specified time frame, without prompt notifications, the LAC's ability to timely contact entities to help facilitate compliance with EOG information requests and timely direct that funds be withheld until the entity complies with State law is diminished.

Recommendation: The EOG should take appropriate steps to ensure that prompt state of financial emergency determinations are made for local governmental entities that meet a specified condition in State law and that the LAC is promptly notified of entities that do not comply with the EOG's request for information within 45 days.

Finding 6: Annual Financial Report Verifications and Verified Report

State law³¹ requires local governmental entities to submit to the DFS an annual financial report (AFR) and, if the local governmental entities meet the audit threshold specified in State law,³² a copy of their audit report. The submission of the AFR and audit report are to occur within 45 days after the completion of the audit report but no later than 9 months after the end of the fiscal year (typically by June 30). For those local governmental entities not subject to the audit requirement, other prescribed information³³ is also to be submitted to the DFS with the AFR by June 30.

In addition, State law³⁴ requires the DFS to annually file, by December 1, a verified report³⁵ with the Governor, the Legislature, the Auditor General, and the Special District Accountability Program of the Department of Economic Opportunity that shows the total revenues, expenditures, and outstanding long-term debt of each local governmental entity, regional planning council, local government finance

³⁰ Section 218.503(3), Florida Statutes.

³¹ Section 218.32(1), Florida Statutes.

³² Section 218.39(1), Florida Statutes.

³³ The other prescribed information includes, for example, additional account details that provide useful information for making financial condition assessments.

³⁴ Section 218.32(2), Florida Statutes.

³⁵ Section 218.31(9), Florida Statutes, defines verified report as a report that has received such test or tests by the DFS to accurately and reliably present the data that have been submitted by the local governmental entities for inclusion in the report.

commission, and municipal power corporation³⁶ required to submit an AFR. For the 2016 year, the DFS complied with this requirement on November 30, 2016, by e-mailing to the statutorily specified parties an electronic link that enabled the recipients to produce a verified report in real-time showing the revenues, expenditures, and long-term debt in total for each entity along with the underlying detailed information.

The information reported in the AFRs includes local government revenue, expenditures, long-term debt, and other data that can be useful for performing financial analyses. Consequently, it is important for the DFS to maintain a copy of the verified report and records that support report preparation, including the dates DFS personnel verified each AFR and any subsequent AFR revision information used to compile the verified report.

To facilitate local governmental entity submittal of AFR data and help the DFS track and compile the data and prepare and file the verified report, the DFS developed a Web-based system referred to as LOGER (Local Government Electronic Reporting). DFS rules³⁷ require entities to complete and electronically submit AFRs to the DFS through LOGER. Local governmental entity personnel enter in LOGER data, such as revenues, expenditures, and long-term debt, from their accounting records. DFS personnel verify an entity's data entered in LOGER by comparing the data to the financial statements included in the submitted audit report, or with other prescribed information from those entities not subject to the audit requirement and contact the entities for clarification when the comparisons yield significant differences.

According to DFS personnel, LOGER does not identify whether an audit report was required. If an entity does not submit an audit report with the AFR, DFS personnel check the Auditor General Web site for the audit report. If the audit report is not available on the Auditor General Web site, DFS personnel send the entity an e-mail, prior to the filing deadline, requesting the report. If the audit report is not submitted by the filing deadline, DFS personnel will send up to two additional e-mails requesting the report. After any concerns are satisfactorily resolved, DFS personnel certify in LOGER that the AFR data has been verified, which allows the AFR data to be included in the verified report. AFR data received by DFS but not yet verified is not included in the verified report. Consequently, to ensure the completeness of the verified report, it is essential that DFS personnel timely verify all the AFRs.

To determine the timeliness of the DFS AFR verification process, we obtained a report from LOGER for the 2014-15 fiscal year showing the AFR and audit report submittal dates as well as whether the entities' AFRs had been verified as of March 22, 2017 (approximately 9 months after the 2014-15 fiscal year AFR submittal deadline and nearly 3 months after the December 2016 verified report). Our examination of the LOGER report disclosed that DFS personnel had verified 2,003 entity AFRs as of March 22, 2017. However, we also found that:

- Although 34 entities submitted the required AFR and audit report and 23 entities (not required to submit an audit report) submitted the required AFR and other prescribed information to DFS prior to December 1, 2016, as of March 22, 2017, DFS personnel had not verified the information and, consequently, the information was not considered in the verified report totals.

We noted that the DFS did not always timely assign verification responsibilities to DFS personnel, which contributed to the delayed data verifications. Our examination of DFS records supporting the 770 AFRs assigned for verification during the period July 1, 2016, through March 22, 2017,

³⁶ Section 218.32(2), Florida Statutes.

³⁷ DFS Rule 69I-51.003, FAC.

disclosed that the DFS assigned verification responsibilities for 489 AFRs 31 to 428 days (average of 66 days) after the AFR data was received. In response to our inquiries, DFS personnel indicated that verification assignments were not always timely made, and information was not always timely verified due, in part, to employee turnover and because LOGER did not readily identify unsubmitted audit reports and other prescribed information.

- 80 entities submitted AFR data to the DFS by the June 30, 2016, deadline but had not submitted the required audit report as of March 22, 2017; therefore, the entities could not have been included in the December 1, 2016, verified report.

Although we requested copies of the DFS e-mails requesting audit reports from the 80 entities, according to DFS personnel, the e-mails could not be provided as they were not retained in DFS records. In response to our inquiries, DFS personnel indicated that the original e-mails to request the audit reports were dated May 22, 2017, which was nearly 11 months after the audit report due date. As such, DFS records did not demonstrate that timely efforts were made to obtain the required audit reports. Without the timely receipt of audit reports, AFR data cannot be timely verified for inclusion in the verified report.

As part of our audit, on October 11, 2017, we generated a verified report from LOGER showing the total revenues, expenditures, and debt for the 2,130 entities for the 2014-15 fiscal year. We then compared totals from the verified report to the detailed AFR data for 10 entities. As shown in Table 1, our comparison disclosed that, for 4 of the 10 entities, the revenue totals from the verified report did not agree with the revenue totals reported in the entity AFRs and, for 3 of those 4 entities, the expenditure totals did not agree.

Table 1
Differences Between AFR and Verified Report Amounts as of October 11, 2017
(in Thousands)

	Total Revenues per Verified Report	Total Revenues per AFR	Difference	Percentage Difference	Total Expenditures per Verified Report	Total Expenditures per AFR	Difference	Percentage Difference
Entity 1	\$15,900	\$20,600	\$4,700	22.8%	\$43,400	\$48,100	\$4,700	9.8%
Entity 2	673	988	315	31.9%	703	703	-	NA
Entity 3	115,900	125,200	9,300	7.4%	97,500	106,700	9,200	8.7%
Entity 4	790	807	17	2.2%	805	822	17	2.1%
Total			<u>\$14,300</u>				<u>\$14,000</u>	

Source: DFS records

Our further review disclosed that the underreported revenues and expenditures totals in the verified report occurred because certain AFR revenue and expenditure data accounts were excluded from the verified report. In response to our inquiries, DFS personnel indicated that DFS records do not identify which AFR revenue and expenditure data accounts are included in the verified report. Therefore, although we requested, a determination of how the data was compiled and why certain AFR revenue and expenditure data accounts were excluded from the verified report could not be provided. Subsequent to our inquiries, DFS personnel matched all AFR revenue and expenditure data accounts against those accounts used in compiling the verified report and identified 12 AFR revenue data accounts and 4 AFR expenditure data accounts that, since at least the 2009 calendar year, had been inadvertently excluded from the verified report. The excluded AFR data accounts included, for example, proprietary fund Federal, State, and

other grants and donations revenue accounts and other nonoperating disbursements expenditure accounts. Excluding the 12 AFR revenue and 4 AFR expenditure data accounts from the verified report caused certain reporting entities information to be misstated, reducing the reliance report users could place on the reported entity revenue and expenditure totals.

As previously noted, the DFS sent an e-mail to the statutorily specified entities providing them an electronic link to the LOGER Web site. Once at the LOGER Web site, a real-time verified report showing the revenues, expenditures, and long-term debt in total for each entity, as well as the underlying detailed information, could be requested. However, since LOGER was updated whenever new AFR data was entered and verified, the verified report information was also updated. DFS personnel indicated that neither LOGER nor other DFS records identified the dates that AFRs were verified or when subsequent AFR revisions were verified, and no electronic or paper copies of the verified reports were maintained in DFS records. As a result, DFS records did not support the data that would have been included in the December 2016 verified report. Without records supporting the data included in the verified report, DFS cannot demonstrate the accuracy and completeness of the reported information that users rely on for decision making.

Recommendation: To enhance the timeliness of AFR verification and promote the accuracy and reliability of the verified report, the DFS should:

- **Improve LOGER functionality to identify those entities required to provide audit reports and the AFRs that are ready for verification upon receipt of either an audit report or other prescribed information.**
- **Assign AFRs to DFS personnel for verification as soon as practical.**
- **Make prompt and appropriate attempts to obtain required audit reports and retain documentation, such as e-mails, evidencing such attempts.**
- **Ensure all applicable AFR data accounts are included in the verified report by establishing procedures to require periodic documented comparisons of AFR data accounts to those used in the verified report.**
- **Maintain a copy of the December verified report and the records that support report preparation, including, but not limited to, the dates that DFS personnel verified the AFR and subsequent AFR revision information.**

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Executive Office of the Governor, the Department of Financial Services, and the Department of Management Services had taken corrective actions for selected findings included in our report Nos. 2009-014, 2011-196, and 2015-037.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts performance audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The purpose of this performance audit was to determine the accuracy, efficiency, and effectiveness of the local government financial reporting system in achieving its goals and to make recommendations to local governments, the Governor, and the Legislature as to how the reporting system can be improved and how program costs can be reduced. The local government financial reporting system should provide for the timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by the members of the Legislature and other appropriate officials to accomplish the following goals:

- Enhance citizen participation in local government;
- Improve the financial condition of local governments;
- Provide essential government services in an efficient and effective manner; and
- Improve decision making on the part of the Legislature, State agencies, and local government officials on matters relating to local government.

We conducted this performance audit from February 2017 through January 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objectives of this Local Government Financial Reporting System performance audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- To determine whether management had corrected, or was in the process of correcting, selected deficiencies disclosed in our report Nos. 2009-014, 2011-196, and 2015-037.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in

considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- From the population of 220 community redevelopment agencies (CRAs) reported as active by the Florida Department of Economic Opportunity (DEO) as of February 14, 2017, selected 60 CRAs for the 2014-15 fiscal year to determine whether the CRAs met the reporting requirements of Section 163.387(8), Florida Statutes.
- Reviewed applicable laws, policies, and procedures, and interviewed Executive Office of the Governor (EOG) personnel to gain an understanding of and evaluate the EOG's processes for:
 - Determining whether local governmental entities were in a state of financial emergency.
 - Tracking and monitoring entities determined to be in a state of financial emergency.
 - Providing assistance to entities in a state of financial emergency.
 - Removing entities from financial emergency status.
- From the population of 30 local governmental entities reported as being in financial emergency status as of March 21, 2017, determined whether all 30 entities filed an annual audit report, if required by Section 218.39, Florida Statutes, and whether the entities continued to meet specified conditions as defined by Section 218.503(1), Florida Statutes.
- From the population of 77 notifications for 64 local government entities that, during the period October 2015 through December 2016, had either met a specified condition or would meet a specified condition unless action was taken to assist the entity, examined records supporting 32 selected entities to determine whether the EOG timely:
 - Contacted the local governmental entity to obtain information needed to determine whether the entity required State assistance pursuant to Section 218.503(3), Florida Statutes.
 - Notified the Legislative Auditing Committee (LAC) if the entity did not respond to the EOG information request within the 45-day period prescribed by Section 218.503(3), Florida Statutes.
 - Determined whether the entity was in a state of financial emergency.
- Reviewed applicable laws, policies, and procedures, and interviewed Department of Financial Services (DFS) personnel to gain an understanding of and evaluate DFS processes for maintaining a list of entities required to file an annual financial report (AFR) pursuant to Section 218.32(1), Florida Statutes, and a record of entities that filed the AFR; verifying reported AFR

data; and reporting noncompliance to the DEO and LAC pursuant to Section 218.32, Florida Statutes.

- Compared the notifications the DFS provided to the DEO and LAC pursuant to Section 218.32(1)(f), Florida Statutes, for local governmental entities that had not filed a complete AFR to DFS records of AFR submission dates to determine whether the noncompliance notifications were complete and accurate. Specifically, we:
 - Determined whether all 400 entities shown on DFS records as either not submitting a 2014-15 fiscal year AFR or submitting the AFR after the prescribed deadline (June 30, 2016, which is 9 months after the 2014-15 fiscal year end) were included on the DEO and LAC notifications.
 - Determined whether all entities on the DEO and LAC notifications either did not submit an AFR or did not timely submit an AFR according to DFS records.
- Compared the DFS record of 2,074 special districts as of March 20, 2017, to the DEO official list of special districts to determine whether the DFS record of special districts was accurate and complete for determining special districts required to file an AFR. Also, we determined whether the status (active, inactive, or dissolved) of special districts per DFS records were consistent with the status shown on the DEO official list.
- Determined whether the DFS prepared a verified AFR report for the 2014-15 fiscal year and provided the report to the EOG, the Legislature, and the DEO by December 1, 2016, as required by Section 218.32(2), Florida Statutes.
- Examined DFS records to determine whether DFS personnel, as of March 22, 2017, had timely verified the 2014-15 fiscal year AFRs received for which an audit report or other prescribed information, as applicable, had also been received.
- From the population of 1,720 local governmental entities (primary governments and component units) 2014-15 fiscal year AFRs verified to audit reports by DFS personnel as of March 22, 2017, selected 30 AFRs to compare to the respective audit reports to determine the effectiveness of the DFS verification procedures.
- From the population of 2,130 entities (including component units) for which 2014-15 fiscal year AFR data was verified by DFS personnel as of October 11, 2017, selected 10 entities to determine whether revenue, expenditure, and debt totals per LOGER agreed with the supporting AFR data.
- Reviewed applicable laws, policies, and procedures, and interviewed Department of Management Services (DMS) personnel to gain an understanding of and evaluate DMS processes for gathering, cataloging, and maintaining information on all public employee retirement plans in the State. Additionally, we reviewed applicable laws, policies, and procedures, and interviewed DMS personnel to gain an understanding of and evaluate the process for distributing excise taxes on property insurance premiums to police and firefighter pension funds.
- For the 26 local governmental entities during the period October 2015 through August 2016 (i.e., 22 special districts created during that period and 4 entities created before that period, including 2 special districts and 2 municipalities) that switched to the Florida Retirement System (FRS) examined applicable DMS records and determined:
 - For the 22 special districts, whether the DMS timely contacted the entities to obtain data on all public employee retirement systems or plans as soon as possible after the creation of the entity to effectively monitor the local government compliance with the actuarial report and impact statement submittal requirements in accordance with Section 112.63, Florida Statutes.
 - For the 4 other local governmental entities, whether the DMS timely verified that the entities' pension plans were still in effect and, therefore, continued to be subject to Section 112.63, Florida Statutes.

- For the 617 actuarial valuation reports and 265 actuarial impact statements received from October 2015 through December 2016, compared the date the actuarial impact statement was received to the date of acknowledgement for entities that submitted the reports and statements to determine whether the DMS timely acknowledged receipt of the reports and statements in accordance with Section 112.63(4), Florida Statutes.
- From the population of 358 local government police and fire pension funds (168 police pension funds and 190 fire pension funds) that were approved for the distribution of premium taxes for the 2015 calendar year, selected 23 police pension funds and 27 fire pension funds to determine whether the DMS obtained, reviewed, and accepted an actuarial valuation within the 3 years preceding the date of approval for the 2015 calendar year premium taxes distribution in accordance with Sections 175.121 and 185.10, Florida Statutes.
- Reviewed the provisions of Section 29.008 and 29.0085, Florida Statutes, and DFS Rule 69I-69.002, FAC, and evaluated the usefulness of the statement of compliance required by Section 29.0085(2)(a), Florida Statutes.
- Evaluated the procedures and processes used by the DFS to implement the provisions of Section 29.0085(2)(a), Florida Statutes.
- Examined all 67 county 2015-16 fiscal year statements of compliance submitted by independent certified public accountants (CPAs) to the DFS pursuant to Section 29.0085(2)(a), Florida Statutes, to determine whether the CPAs demonstrated a clear understanding of their reporting responsibilities under State law and consistently prepared the statements in accordance with applicable reporting requirements.
- Reviewed the provisions of Section 403.7125, Florida Statutes, and Department of Environmental Protection (DEP) Rule 62-701.630(5), FAC, to gain an understanding about the escrow account audit required by Section 403.7125(2)(b), Florida Statutes.
- Reviewed 2015-16 fiscal year audit reports submitted by independent CPAs to the DEP pursuant to Section 403.7125(2)(b), Florida Statutes, to determine whether the CPAs demonstrated a clear understanding of their audit and reporting responsibilities under State law and consistently prepared the audit reports in accordance with applicable reporting requirements.
- Reviewed Section 218.391, Florida Statutes, and evaluated the potential need for additional statutory provisions to address audit committee responsibilities and audit committee member qualifications.
- To determine whether local governments were effectively using audit committees, surveyed local governments that filed 2015-16 fiscal year audit reports with the Auditor General as of September 15, 2017. We evaluated the survey results to determine whether the local governmental entities, in accordance with Government Finance Officers Association (GFOA) best practices:
 - Had an ordinance, resolution, or written policies and procedures addressing the audit committee.
 - Required audit committees to include, or utilize, individuals with the GFOA-recommended minimum qualifications.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management responses are included in this report under the heading **MANAGEMENT RESPONSES**.

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(g), Florida Statutes, I have directed that this report be prepared to present the results of our performance audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT RESPONSES



RICK SCOTT
GOVERNOR

STATE OF FLORIDA
Office of the Governor

THE CAPITOL
TALLAHASSEE, FLORIDA 32399-0001

www.flgov.com
850-488-7146
850-487-0801 fax

September 18, 2018

Sherrill F. Norman, CPA
Auditor General, State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

Please accept our written response from the Executive Office of the Governor to address preliminary & tentative findings that may be included in a report following your performance audit of the Executive Office of the Governor, Local Government Financial Reporting System.

Our enclosed response contains management actions that have been completed and management actions expected to be taken as a result of the audit. This fulfills the requirements of our agency to timely respond, as required by Section 11.45(4)(d), *Florida Statutes*.

We appreciate the assistance from you and your staff in improving our operations. Please contact me at (850) 717-9222 should you have any questions or concerns regarding our response.

Respectfully,

A handwritten signature in blue ink, appearing to read "Dawn Hanson", with a long horizontal flourish extending to the right.

Dawn Hanson
Director of Administration

Enclosure

cc: Brad Piepenbrink, Chief of Staff
Diane Moulton, Director of Executive Staff
Cynthia Kelly, State Budget Director

**Executive Office of the Governor
Response to Preliminary & Tentative Audit Findings and Recommendations for
the Auditor General's Performance Audit of the Local Government Financial
Reporting System**

Finding No. 5:

The Executive Office of the Governor did not always promptly make state of financial emergency determinations for local governmental entities that met a specified condition in State law or notify the Legislative Auditing Committee (LAC) of local governmental entities that did not timely respond to EOG information requests.

Recommendation:

The Executive Office of the Governor should take appropriate steps to ensure that prompt state of financial emergency determinations are made for local governmental entities that meet a specified condition in State law and that the LAC is promptly notified of entities that do not comply with the EOG's request for information within 45 days.

Executive Office of the Governor Response:

We concur with the finding and recommendation.

Corrective Action as of September 18, 2018:

We have implemented a process to ensure that prompt state of financial emergency determinations are made for local governmental entities that meet a specified condition in State law. We have also implemented a process to ensure that the LAC is promptly notified of entities that do not comply with the EOG's request for information within 45 days.

We have a Governor's Fellow that is assisting the Director of Audits with reviewing our financial emergency processes and updating our procedures. We also have an OPS position assigned to process financial emergency documents and information. We are currently updating our financial emergency procedures to reflect the changes that have been implemented to improve our financial emergency processes. We expect to complete our procedure updates by December 31, 2018.



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

September 25, 2018

Sherrill F. Norman
Auditor General
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, the enclosed response is provided for the preliminary and tentative audit findings included in the Auditor General's audit of the *Local Government Financial Reporting System*.

If you have any questions concerning this response, please contact David Harper, Inspector General, at (850) 413-3112.

Sincerely, .

A handwritten signature in blue ink that reads "Jimmy Patronis".

Jimmy Patronis
Chief Financial Officer

JP/eps
Enclosure
c: David Harper, Inspector General

**DEPARTMENT OF FINANCIAL SERVICES
LOCAL GOVERNMENT FINANCIAL REPORTING SYSTEM
PERFORMANCE AUDIT**

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 6: Annual Financial Report Verifications and Verified Report

The Department of Financial Services (DFS) did not always timely assign annual financial report (AFR) verification responsibilities to DFS personnel nor was AFR information always timely verified. We also identified 80 local governmental entities required to submit 2014-15 fiscal year audit reports to the DFS that did not submit the reports, and DFS records did not always evidence attempts to obtain the reports from those entities. In addition, our comparison of the 2014-15 fiscal year verified report totals generated from the DFS Web-based Local Government Electronic Reporting system to the related AFR data for 10 entities disclosed that the verified report excluded revenues totaling \$14.3 million and expenditures totaling \$14 million that were reported in the individual entity AFRs. Further, DFS records did not evidence electronic or paper copies of the December 2016 verified report provided to statutorily specified parties nor the basis for the data included in the report.

Recommendation: To enhance the timeliness of AFR verification and promote the accuracy and reliability of the verified report, the DFS should:

- Improve LOGER functionality to identify those entities required to provide audit reports and the AFRs that are ready for verification upon receipt of either an audit report or other prescribed information.
- Assign AFRs to DFS personnel for verification as soon as practical.
- Make prompt and appropriate attempts to obtain required audit reports and retain documentation, such as e-mails, evidencing such attempts.
- Ensure all applicable AFR data accounts are included in the verified report by establishing procedures to require periodic documented comparisons of AFR data accounts to those used in the verified report.
- Maintain a copy of the December verified report and the records that support report preparation, including, but not limited to, the dates that DFS personnel verified the AFR and subsequent AFR revision information.

Response: DFS concurs with the finding. DFS is working with our Office of Information Technology to enhance LOGER functionality and is in the process of developing our Business Requirements Document for these enhancements. Additionally, DFS has included funding for LOGER enhancements in the Legislative Budget Request.

DFS is in the process of making procedural changes to timely assign AFRs to DFS personnel for timely verification. In addition, these procedural changes will include documenting DFS's timely attempts to obtain required audit reports, and to save and maintain an electronic copy of the December certified report and records that support report preparation.