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SUMMARY OF SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN LOCAL GOVERNMENT AUDIT REPORTS FOR THE 2017-18 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 2017-18 FISCAL YEAR

SUMMARY

This report provides a summary of significant findings identified in local governmental entity[1] audit reports filed with us for the 2017-18 fiscal year prepared by independent certified public accountants (CPAs). This report also summarizes the financial trends we identified in those reports and unaudited annual financial reports (AFRs) filed with and provided to us by the Department of Financial Services (DFS).

Significant Findings

We reviewed the 1,398 local governmental entity 2017-18 fiscal year financial audit reports filed with us for 1,705 entities[2] (370 county agencies, 358 municipalities, and 977 special districts) as of July 31, 2019, and noted that:

- The audit reports for 44 (3 percent) of the entities contained one or more modified opinions, which represents 1 percent more than the entity audit reports reviewed for the 2016-17 fiscal year with those opinions.
- The audit reports contained 985 findings, 5 percent fewer than the 1,042 findings included in the 2016-17 fiscal year audit reports reviewed. The 985 findings included 367 findings (37 percent) similarly reported in the 2016-17 and 2015-16 fiscal year audit reports, compared to 385 findings (37 percent) reported in the 2016-17 audit reports that had been similarly reported in the 2015-16 and 2014-15 fiscal year audit reports. Many of the findings (33 percent) did not include one or more of the elements required by *Government Auditing Standards* (*GAS*)[3] and the Rules of the Auditor General.[4]
- The audit reports for 166 (10 percent), 140 (8 percent), and 68 (4 percent) of the entities disclosed findings classified as financial statement material weaknesses, significant deficiencies, and noncompliance required to be reported in accordance with *GAS*,[5] respectively. For the 2016-17 fiscal year, the same percentages of audit reports reviewed had those type findings.
- CPAs considered 258 (26 percent) of the 985 findings reported to be material weaknesses in internal control over financial reporting, 198 findings (19 percent) to be significant deficiencies, and 93 (9 percent) to be noncompliance required by *GAS* to be reported. For the 2016-17 fiscal year, those type findings represented 24 percent, 17 percent, and 9 percent, respectively, of the total findings reported.
- The material weaknesses and significant deficiencies reported for the 2017-18 and 2016-17 fiscal years primarily related to inappropriate separation of duties, general accounting records, and

[1] The local governmental entities include counties and certain municipalities and special districts.

[2] The 1,398 audit reports received through July 31, 2019, included 63 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 1,705 local governmental entities.

[3] *Government Auditing Standards 2011 Revision,* paragraphs 4.11 through 4.14.

[4] Chapter 10.550, Rules of the Auditor General.

[5] *GAS* require auditors to report noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the financial statements and any other instances of noncompliance with provisions of laws or regulations that warrant the attention of those charged with governance.

financial reporting; whereas, the noncompliance findings mainly addressed budget overexpenditures and noncompliance with bond covenants and established policies and procedures.

- 17 audit reports contained a total of 30 findings citing Federal awards program noncompliance, control deficiencies, or both; whereas, for the 2016-17 fiscal year, 18 entity audit reports had a total of 43 of those findings. In addition, 22 audit reports contained a total of 34 findings citing State awards program noncompliance, control deficiencies, or both; whereas, for the 2016-17 fiscal year, 16 entity audit reports had a total of 26 of those findings.

Financial Trends

We reviewed 1,451 audit reports for the 2017-18 fiscal year, including the 1,398 local governmental entity 2017-18 fiscal year audit reports filed with us through July 31, 2019, and audit reports we received from 53 other local governmental entities during the period August through October 2019. We also reviewed 144 selected local governmental entity unaudited AFRs filed with the DFS and provided to us.

Our reviews of the 1,451 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 law[6] that could cause the entity to be in a state of financial emergency. We also compiled and reviewed reported financial data, for example, fund equity, cash, and investment balances, as applicable, for the 1,398 audit reports filed with us through July 31, 2019, and the 144 AFRs. Our reviews disclosed that:

- The audit report for 1 local governmental entity included a going concern statement by the respective CPA that questioned the ability of the local governmental entity to continue operations on an ongoing basis. Two reports reviewed for the 2016-17 fiscal year contained this statement.
- The audit reports for 38 (3 municipalities and 35 special districts), or 3 percent, of the 1,451 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 45 (1 county, 10 municipalities, and 34 special districts), or 3 percent, of the 1,451 entities reported that the entity was experiencing deteriorating financial conditions. The number of reported entities experiencing deteriorating financial conditions decreased from 73 entities during the 2013-14 fiscal year to 45 entities during the 2017-18 fiscal year.
- Taxable property values and taxes levied in the 2018 calendar year were more than the values and levies in each of the 4 previous calendar years. County and municipality taxable property values increased by $347 billion (23 percent) and $231 billion (29 percent), respectively, over the 9-year period 2009 through 2018. Taxes levied also increased by $2 billion (29 percent) for counties and by $1.4 billion (40 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.

[6] Section 218.503(1), Florida Statutes.

BACKGROUND

One of the local government financial reporting system goals set forth in State law[7] 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. State law[8] requires local governmental entity financial audits be performed by independent certified public accountants (CPAs). The independent auditors are to notify local governmental entities of:[9]

- Deteriorating financial conditions that may cause a condition described in State law[10] 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 General[11] 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 General[12] 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.[13]

State law[14] requires us to review, in consultation with the Florida Board of Accountancy, all local governmental entity audit reports filed with us. Pursuant to State law,[15] 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.[16] 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

[7] Section 11.45(2)(g), Florida Statutes.
[8] Section 218.39(1), Florida Statutes.
[9] Section 218.39(5), Florida Statutes.
[10] Section 218.503(1), Florida Statutes.
[11] Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General (2017).
[12] Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General.
[13] Section 218.503(2), Florida Statutes.
[14] Section 11.45(7)(b), Florida Statutes.
[15] Section 11.45(7)(e), Florida Statutes.
[16] 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.[17]

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 matters 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 2017-18 fiscal year audit reports for 1,705 local governmental entities[18] (370 county agencies, 358 municipalities, and 977 special districts) and noted that the audit reports for 44 (3 percent) of the entities contained one or more modified opinions. The reported information included:

- Qualified opinions for 35 entities (4 counties, 15 municipalities, and 16 special districts).
- Adverse opinions for 18 special districts, including 9 with qualified opinions.

Thirty (68 percent) of the 44 local governmental entities with modified opinions also had one or more modified opinions for the 2016-17 fiscal year.

Table 1 lists the 35 entities whose 2017-18 fiscal year audit reports included qualified opinions. Auditors issued qualified opinions because the entities, for example, failed to implement certain Governmental Accounting Standards Board (GASB) statements,[19] had inadequate records for capital assets, lacked supporting documentation for expenditures, and excluded component units from the financial statements. The percentage of 2017-18 fiscal year audit reports reviewed with qualified opinions (2 percent) is comparable to the percentage of 2016-17 fiscal year audit reports reviewed with qualified opinions (1.3 percent).

[17] Section 11.45(7)(f), Florida Statutes.

[18] The 1,398 audit reports received included 63 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 1,705 local governmental entities.

[19] GASB Statement No. 67, *Financial Reporting for Pension Plans*; 68, *Accounting and Financial Reporting for Pensions*; and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Table 1
Entities with Qualified Audit Report Opinions

For the 2017-18 Fiscal Year

	County
1	Baker County Board of County Commissioners
2	Liberty County Supervisor of Elections
3	Union County Board of County Commissioners [a]
4	Washington County Board of County Commissioners [a]
	Municipality
1	Town of Astatula
2	City of Carrabelle
3	City of Chattahoochee
4	City of Chiefland [a]
5	City of Crescent City
6	Town of Cross City
7	Town of Greenville
8	Town of Hastings
9	City of High Springs
10	Town of Indialantic
11	Town of Inglis [a]
12	City of Lake Helen
13	Town of Malabar
14	Town of Monticello
15	Town of Yankeetown
	Special District
1	Arborwood Community Development District [a b c]
2	Big Bend Water Authority
3	Buckeye Park Community Development District [a b c]
4	Gramercy Farms Community Development District [a b c]
5	Indigo Community Development District
6	Magnolia West Community Development District [c]
7	Meadow Pointe IV Community Development District [a b c]
9	Montecito Community Development District [a b c]
9	Naturewalk Community Development District [a b c]
10	New River Public Library Cooperative [a]
11	Portofino Isles Community Development District [a b c]
12	Riverwood Estates Community Development District [a b c]
13	Sanibel Fire and Rescue District
14	St. Augustine Port, Waterway and Beach District
15	Waterstone Community Development District
16	Westside Community Development District [a b c]
35	**Total Number of Audit Reports with Qualified Opinions**

[a] Entity is 1 of 14 entities that also had a qualified audit report opinion for the 2016-17 fiscal year.

[b] Entity is 1 of 9 entities that also had an adverse audit report opinion for the 2017-18 fiscal year.

[c] Entity is 1 of 10 entities that also had an adverse audit report opinion for the 2016-17 fiscal year.

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

Table 2 lists the 18 special districts whose 2017-18 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 2017-18 fiscal year audit reports reviewed with adverse opinions (1 percent) is comparable to the percentage of 2016-17 fiscal year audit reports reviewed with adverse opinions (1.5 percent).

Table 2
Entities with Adverse Audit Report Opinions
For the 2017-18 Fiscal Year

	Special District
1	Arborwood Community Development District [a] [b]
2	Buckeye Park Community Development District [a] [b]
3	Chapel Creek Community Development District [a]
4	Gramercy Farms Community Development District [a] [b]
5	Magnolia Creek Community Development District
6	Meadow Pointe IV Community Development District [a] [b]
7	Montecito Community Development District [a] [b]
8	Naturewalk Community Development District [a] [b]
9	Palm River Community Development District [a]
10	Portofino Isles Community Development District [a] [b]
11	River Glen Community Development District [a]
12	Riverwood Estates Community Development District [a] [b]
13	Sterling Hill Community Development District [a]
14	Treeline Preserves Community Development District
15	Waterford Estates Community Development District [a]
16	Westridge Community Development District [a]
17	Westside Community Development District [a] [b]
18	Zephyr Ridge Community Development District [a]
18	**Total Number of Audit Reports with Adverse Opinions**

[a] Entity is 1 of 16 entities that also had an adverse audit report opinion for the 2016-17 fiscal year.

[b] Entity is 1 of 9 entities that also had an qualified audit report opinion for the 2017-18 fiscal year.

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

Classification of Audit Findings

Auditing standards require auditors to report material weaknesses in internal control and significant control deficiencies 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. Auditors must also report noncompliance required to be reported by *Government Auditing Standards* (*GAS*) that has a material effect on a financial statement audit. The classification of an audit finding is dependent upon its potential impact on the specific entity under audit. Therefore, the classification of an audit finding could vary from entity to entity.

For the 2017-18 fiscal year, the financial audit reports we reviewed for the 1,705 local governmental entities[20] included 1,238 entity reports that contained no findings, while the reports for the remaining 467 local governments (27 percent) included a total of 985 findings addressing deficiencies in internal control; instances of noncompliance with applicable laws, rules, or regulations; and other findings. In contrast, 30 percent of the audit reports we reviewed for the 2016-17 fiscal year[21] included audit findings.

Financial Statement Material Weaknesses and Noncompliance Required to be Reported by *GAS*

One or more findings were considered by the respective certified public accountants (CPAs) to be financial statement material weaknesses in 166 (10 percent) the 2017-18 fiscal year local governmental audit reports we reviewed, which is the same percent of audit reports reviewed that reported material weaknesses for the 2016-17 fiscal year. In total, the 2017-18 fiscal year audit reports we reviewed included 258 findings (75 findings for 49 county agencies, 112 findings for 63 municipalities, and 71 findings for 54 special districts) considered by the respective CPAs to be material weaknesses. This represents 26 percent of the total findings reported, which is the same percent of material weakness findings reported for the 2016-17 fiscal year. The financial statement material weaknesses reported for the 2017-18 and 2016-17 fiscal years primarily related to inappropriate separation of duties, general accounting records, and financial reporting.

Additionally, the 2017-18 fiscal year audit reports for 68 local governmental entities included a total of 93 findings (8 findings for 7 county agencies, 30 findings for 21 municipalities, and 55 findings for 40 special districts), or 9 percent of the total findings, considered by the respective CPAs to be noncompliance findings required to be reported by *GAS*, including 3 noncompliance findings reported in separate reports and also classified as material weaknesses. Comparably, for the 2016-17 fiscal year, 67 local governmental entities had a total of 91 noncompliance findings required to be reported by *GAS*, including 7 noncompliance findings reported in separate reports and also classified as material weaknesses. The noncompliance findings for the 2017-18 and 2016-17 fiscal years mainly addressed budget overexpenditures and noncompliance with bond covenants.

Further, the 93 findings considered by the respective CPAs to be noncompliance findings included 7 noncompliance findings reported in separate reports and also classified as significant deficiencies. These noncompliance findings mainly addressed lack of, or inadequate, written policies and procedures and noncompliance with bond covenants. In contrast, for the 2016-17 fiscal year, none of the 91 noncompliance findings were also classified as significant deficiencies.

[20] The 1,398 audit reports received through July 31, 2019, included 63 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 1,705 local governmental entities.

[21] For the 2016-17 fiscal year, we reviewed 1,627 local governmental entity audit reports received through July 31, 2018. A total of 1,042 findings were reported for 483 of those local governmental entities.

Financial Statement Significant Deficiencies

One or more findings were considered by the respective CPAs to be financial statement significant deficiencies in 140 (8 percent) of the 2017-18 fiscal year local governmental entity audit reports we reviewed, which is the same percent of audit reports reviewed that reported significant deficiencies for the 2016-17 fiscal year. Also, the 2017-18 fiscal year audit reports included a total of 198 findings (20 percent) considered by the respective CPAs to be financial statement significant deficiencies, which is comparable to the 176 findings (17 percent) reported as significant deficiencies for the 2016-17 fiscal year. The financial statement significant deficiencies reviewed for the 2017-18 and 2016-17 fiscal years primarily related to inappropriate separation of duties, general accounting records, and financial reporting.

Audit Findings by Category

We reviewed 1,705 audit reports for the 2017-18 fiscal year, which was 5 percent more than the 1,627 we reviewed for the 2016-17 fiscal year; notwithstanding, the number of findings decreased by 5 percent (from 1,042 findings for the 2016-17 fiscal year to 985 findings for the 2017-18 fiscal year). The change in the number and percentage of findings is further discussed under the subheading **Repeated Findings from Previous Fiscal Years**.

As part of our review, we identified categories of findings and grouped the various audit findings included in the county (370), municipality (358), or special district (977) 2017-18 fiscal year audit reports 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 23 of the county agency reports (6 percent), 42 of the municipality reports (12 percent), and 25 of the special district reports (3 percent), findings were noted regarding an inadequate separation of duties or responsibilities. These 90 reports represent 5 percent of the reports reviewed, which is the same percentage of reports with similar findings 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 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 7 of the county agency reports (2 percent), 23 of the municipality reports (6 percent), and 41 of the special district reports (4 percent), findings were noted regarding inadequate budgetary controls and noncompliance with legal requirements for adopting and amending the budget. These 71 reports represent 4 percent of the reports reviewed, a 1 percent decrease in the percentage of reports with similar findings 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 29 of the county agency reports (8 percent), 52 of the municipality reports (15 percent), and 34 of the special district reports (3 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 accounting transactions. These 115 reports represent 7 percent of the reports reviewed, which is the same percentage of reports with similar findings the prior fiscal year. Recordkeeping deficiencies may reduce an entity's ability to effectively monitor use of public resources and increase the risk of inappropriate or inefficient use of resources. Improperly recorded transactions also could affect the reliability of the entity's reporting of financial position and results of operations.

Financial Reporting. In 23 of the county agency reports (6 percent), 48 of the municipality reports (13 percent), and 46 of the special district reports (5 percent), findings were noted relating to deficiencies in reporting financial data either externally or within the local governmental entity. These 117 reports represent 7 percent of the reports reviewed, a 1 percent decrease in the percentage of reports with similar findings 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 has a sound financial condition and is using public resources in an efficient and appropriate manner.

Cash. In 10 of the county agency reports (3 percent), 24 of the municipality reports (7 percent), and 15 of the special district reports (2 percent), findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks. These 49 reports represent 3 percent of the reports reviewed, which is the same percentage of reports with similar findings 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 8 of the county agency reports (2 percent), 37 of the municipality reports (10 percent), and 14 of the special district reports (1 percent), findings were noted regarding noncompliance with legal requirements for acquiring or disposing capital assets or the improper use of, and lack of accountability for, capital assets. These 59 reports represent 3 percent of the reports reviewed, which is the same percentage of reports with similar findings 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 capital asset acquisitions, and unauthorized capital asset disposals. 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 and resolution.

Debt Administration. In 13 of the municipality reports (4 percent) and 38 of the special district reports (4 percent), findings cited 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.

These 51 reports represent 3 percent of the reports reviewed, which is the same percentage of reports with similar findings 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 14 of the county agency reports (4 percent), 35 of the municipality reports (10 percent), and 5 of the special district reports (1 percent), findings disclosed inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable. These 54 reports represent 3 percent of the reports reviewed, which is the same percentage of reports with similar findings the prior fiscal year. The findings addressed improper recording of revenue or accounts receivable transactions, improper documentation supporting 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 11 of the county agency reports (3 percent), 26 of the municipality reports (7 percent), and 16 of the special district reports (2 percent), findings identified inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration. These 53 reports represent 3 percent of the reports reviewed, which is the same percentage of reports with similar findings 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 8 of the county agency reports (2 percent), 13 of the municipality reports (4 percent), and 19 of the special district reports (2 percent), findings were noted regarding deficiencies in expending public funds. These 40 reports represent 2 percent of the reports reviewed, a 1 percent decrease in the percentage of reports with similar findings 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.

Federal Awards Program and State Awards Program Findings

Federal Uniform Guidance[22] and State law[23] establish uniform Federal and State awards program audit requirements. In any fiscal year a local governmental entity meets the audit threshold requirements, the entity must have the applicable Federal or State single audit. In the audit reports, auditors are required to opine on major Federal and major State program compliance requirements, as applicable, and the

[22] Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

[23] Section 215.97, Florida Statutes.

auditors can classify audit findings as material weaknesses, significant deficiencies, or noncompliance that has a direct and material effect on major program compliance.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal or State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal or State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The audit reports for 17 local governmental entities included a total of 30 findings addressing Federal awards program noncompliance, control deficiencies, or both. The findings cited noncompliance with the Federal awards program[24] compliance requirements of Allowable Costs and Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment; Reporting; and Subrecipient Monitoring. For example:

- 1 local governmental entity was cited with a finding for major Federal awards program noncompliance that resulted in a qualified opinion for the Federal awards program. This represented a decrease from the 3 entities for the 2016-17 fiscal year cited for 7 major Federal awards program noncompliance findings, resulting in 7 major Federal awards program qualified opinions.
- The entity that received a qualified opinion on Federal awards program compliance and 3 other local governmental entities were cited for a total of 5 findings addressing major Federal awards program control deficiencies considered by the respective CPAs to be material weaknesses in internal controls over major Federal program compliance. In contrast, for the 2016-17 fiscal year, 5 entities were cited with a total of 7 findings considered to be material weaknesses in internal controls over major Federal program compliance.
- 11 local governmental entities were cited a total of 20 findings considered by the respective CPAs to be significant deficiencies. For 7 of these entities, 13 of the findings were also considered by the respective CPAs to be Federal awards program noncompliance required to be reported. Comparatively, for the 2016-17 fiscal year, 14 entities with a total of 27 findings addressing Federal awards programs were considered by the respective CPAs to be significant deficiencies.
- 4 local governmental entities audit reports had a total of 5 findings that identified Federal awards program questioned costs of $89,661 for not tracking time worked on grant projects, $45,700 for equipment rentals overcharged to grant projects, $13,258 for not obtaining contractor payroll certifications, and $7,850 for other miscellaneous questioned costs. In contrast, for the 2016-17 fiscal year, 2 audit reports had a total of 3 findings that identified Federal awards program questioned costs of $33,616 for not tracking time worked on grant projects, $37,276 for not documenting payroll and equipment usage costs charged to the programs, and $422,985 for not obtaining contractor payroll certifications.

In addition, the audit reports for 22 local governmental entities included a total of 34 findings citing State awards program noncompliance, control deficiencies, or both. These findings addressed noncompliance

[24] The Federal awards programs included the Airport Improvement, Capitalization Grant for Clean Water, Community Development Block Grants, Disaster Grants - Public Assistance, Federal Transit Formula Grant, Highway Planning and Construction, Home Investment Partnerships, Housing Opportunities for Persons with AIDS, Low-Income Home Energy Assistance, Temporary Assistance for Needy Families, and Workforce Investment Act National Emergency Grant.

with the State awards program[25] compliance requirements of Allowable Costs and Cost Principles; Cash Management; Eligibility; Equipment and Real Property Management; Procurement and Suspension and Debarment; Reporting; Special Tests and Provisions; and Subrecipient Monitoring. Specifically:

- A total of 3 findings for 2 local governmental entities addressed noncompliance resulting in a qualified opinion for each of the 2 entities for the same major State awards program. For the 2016-17 fiscal year, a total of 5 findings for 3 entities addressed noncompliance resulting in qualified opinions for 5 major State awards programs.
- A total of 6 findings addressing State awards program control deficiencies considered by the respective CPAs to be material weaknesses were cited for 1 of the entities that received a qualified opinion on State awards program compliance and 2 other local governmental entities. Whereas, for the 2016-17 fiscal year, a total of 4 findings addressing State awards program control deficiencies were considered to be material weaknesses for 1 of the entities that received a qualified opinion on State awards program compliance and another local governmental entity.
- A total of 22 findings addressing State awards control deficiencies at 17 local governmental entities were considered by the respective CPAs to be significant deficiencies. Comparatively, for the 2016-17 fiscal year, a total of 16 findings addressing State awards control deficiencies at 12 local governmental entities were considered by the respective CPAs to be significant deficiencies.
- 6 local governmental entities audit reports had a total of 9 findings that identified State awards program questioned costs of $297,761 for loans to recipients that did not comply with eligibility requirements, $57,660 for expenditures not related to the grant projects, $22,031 for payroll expenditures overcharged to the program, and $15,689 for time worked on grant projects that was not tracked. For the 2016-17 fiscal year, 2 findings identified State awards program questioned costs of $60,827 and $44,400 for time worked on grant projects that was not tracked, and one program participant who did not meet the income eligibility guidelines were cited in 2 audit reports.

Detail of Audit Findings

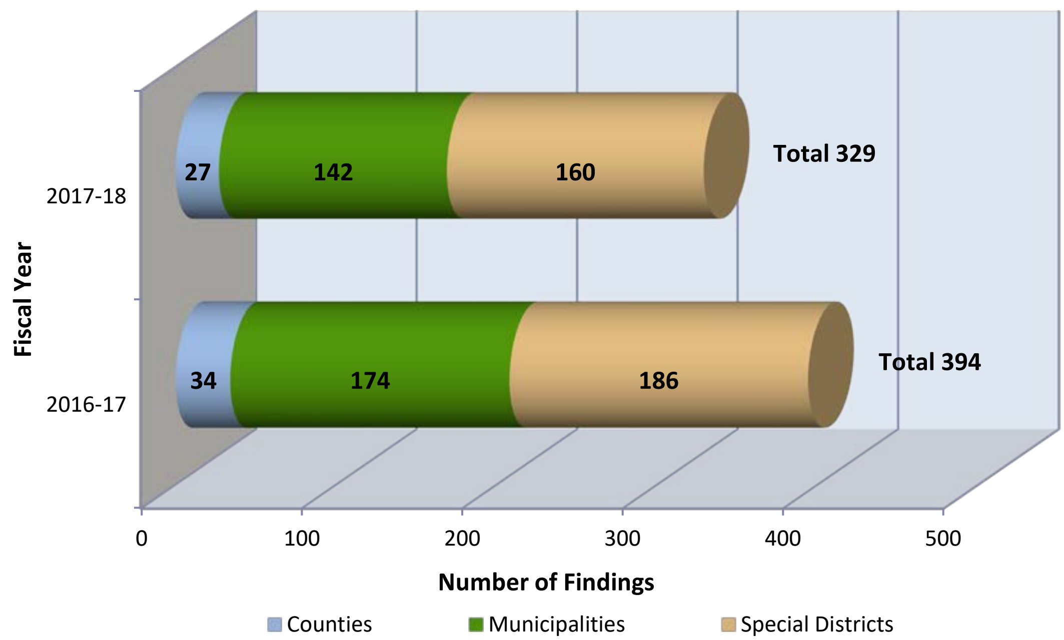
GAS[26] and Rules of the Auditor General[27] prescribe the required elements of audit report findings. Of the 985 findings included in the audit reports we reviewed, 329 findings (33 percent) did not include one or more of the required elements, a decrease from the 38 percent of the prior fiscal year findings that lacked one or more of the required elements. Chart 2 illustrates, by entity type, the total number of insufficiently detailed audit findings reported for the 2016-17 and 2017-18 fiscal years.

[25] The State awards programs included Community Care for the Elderly; Community Assistance Program, Florida Commission for the Transportation Disadvantaged Trip and Equipment Grant, Florida Springs Grant Program, Sebring Parkway, Small County Outreach Program, State Housing Initiatives Partnership Program, Statewide Surface Water Restoration and Wastewater Projects, and Transportation Regional Incentive Program.

[26] *Government Auditing Standards 2011 Revision,* paragraphs 4.11 through 4.14.

[27] Section 10.557(4)(b), Rules of the Auditor General.

Chart 2
Insufficiently Detailed Audit Findings
By Entity Type



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

Contrary to the Rules of the Auditor General,[28] 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 985 findings included in 2017-18 fiscal year audit reports we reviewed, 367 findings (37 percent) for 224 local governmental entities (42 county agencies, 90 municipalities, and 92 special districts) were also included in the entities' 2016-17 and 2015-16 fiscal year audit reports. This is the same percentage

[28] Section 10.554(7)(b), Rules of the Auditor General.

reported in the 2016-17 audit reports as also included in the previous 2 fiscal years' (2015-16 and 2014-15) audit reports.

FINANCIAL TRENDS

Going Concern

The 2017-18 fiscal year audit report for the Palm River Community Development District included a statement by the CPA questioning the ability of the District to continue operations on an ongoing basis (i.e., going concern). In comparison, the 2016-17 fiscal year audit reports for this District and another entity contained similar going concern statements.

Potential Financial Emergencies

State law[29] 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 1,451 local governmental entity 2017-18 fiscal year audit reports filed with us through October 2019 disclosed that a total of 38 (3 percent) of the entities (3 municipalities and 35 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.

[29] Section 218.503(1), Florida Statutes.

Table 3
Local Governments Meeting Specified Conditions
For the 2013-14 Through 2017-18 Fiscal Years

	Fiscal Year				
Number of Local Governmental Entities:	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Meeting one or more of the financial emergency conditions.	**67**	**58**	**55**	**45**	**38**
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.	65	56	54	42	37
Failure to pay uncontested claims from creditors within 90 days after the claim is presented, due to lack of funds.	6	2	3	5	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.	-	-	-	-	1

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

If a local governmental entity is reported as meeting one or more of the specified conditions, Rules of the Auditor General[30] require the independent auditor to specify whether the condition was a result of deteriorating financial conditions. For 35 of the 38 entities reported as meeting one or more of the specified conditions at the 2017-18 fiscal year end, the auditor indicated that the condition resulted from deteriorating financial conditions.

Deteriorating Financial Conditions

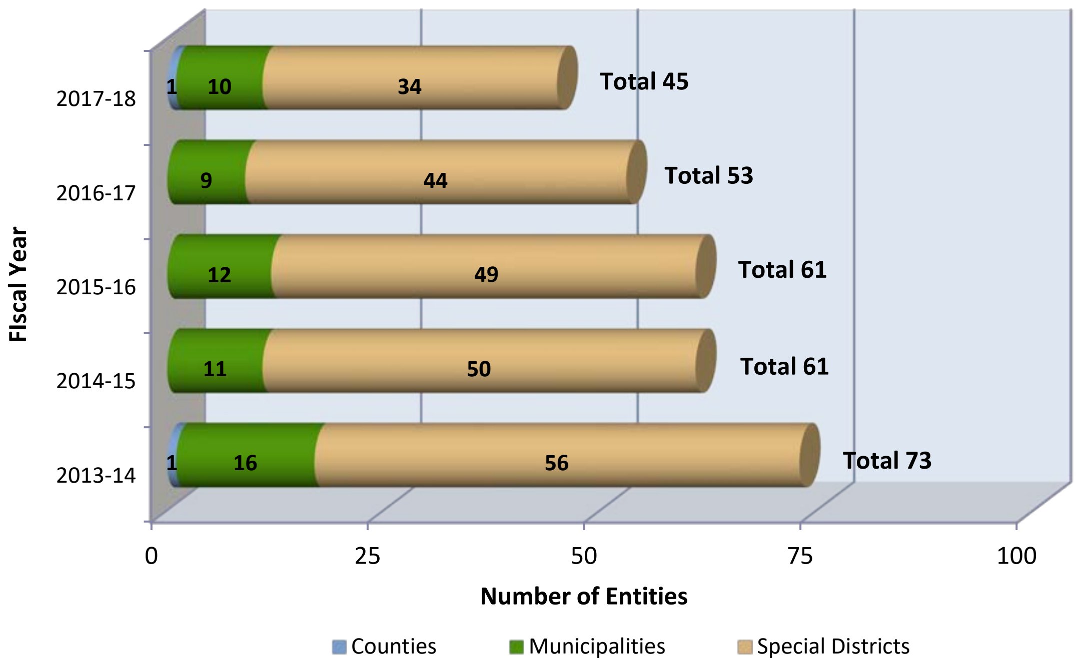
As discussed in the ***BACKGROUND*** section of this report, Rules of the Auditor General[31] require the independent auditor to assess the local governmental entity's financial condition and include management letter recommendations addressing any deteriorating financial conditions disclosed by the 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 45 (3 percent) of the entities (1 county, 10 municipalities and 34 special districts) as experiencing deteriorating financial conditions at the 2017-18 fiscal year end. As illustrated by Chart 3, the total number of local governmental entities reported as experiencing deteriorating financial conditions has steadily decreased from the 2013-14 through the 2017-18 fiscal years.

[30] Section 10.554(1)(i)5.c., Rules of the Auditor General.

[31] 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 2013-14 Through 2017-18 Fiscal Years



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

Millage Rates, Taxable Property Values, and Taxes Levied

As similarly noted for previous calendar years, we prepared a summary in Table 4 that shows, on average, less-populated counties had 2018 calendar year millage rates that were higher than those of more-populated counties and more-populated municipalities had higher 2018 calendar year millage rates than less-populated municipalities.

Table 4
Populations and Average Tax Rates
2018 Calendar Year

Counties		Municipalities	
Population Range	Average 2018 Millage Rate	Population Range	Average 2018 Millage Rate
< 25,000	8.9745	< 1,000	3.8163
25,000 – 74,999	7.8555	1,000 – 2,999	4.6465
75,000 – 224,999	6.0012	3,000 – 9,999	4.9112
225,000 – 674,999	5.9421	10,000 – 24,999	4.7121
675,000 +	4.9170	25,000 – 99,999	5.3039
		100,000 +	6.4448

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

State law[32] limits the ad valorem tax against real property and tangible personal property to 10 mills, except for voted levies. As such, entities with millage rates at or near the statutory maximum may be unable to raise additional funds when needed. For the 2018 calendar year, the average ad valorem millage rate was 6.9030 for counties and 4.8008 for municipalities. Seven counties and seven municipalities established millage rates of 9.5 mills or greater for the 2018 calendar year, which is no change from the seven counties with millage rates 9.5 mills or greater for the 2017 calendar year and an increase from the six municipalities with millage rates of 9.5 mills or greater for the 2017 calendar year. Since the 2009 calendar year, the average millage rate has increased 7 percent for counties and 14 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 2009 through 2018 calendar years are shown in Table 5.

Table 5
Average Millage Rates, Taxable Property Values, and Taxes Levied
For the 2009 Through 2018 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]
2018	6.9030	$1,862,983,263,912	$9,233,456,980	2018	4.8008	$1,020,379,094,863	$5,021,148,012
2017	6.8307	$1,735,396,221,790	$8,595,251,079	2017	4.8309	$948,589,859,725	$4,616,851,516
2016	6.8891	$1,607,219,081,691	$7,966,906,575	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	$6,217,195,940	2011	4.4754	$672,020,162,040	$3,165,072,038
2010	6.5173	$1,345,093,391,219	$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	$789,797,843,364	$3,586,619,289

[a] Amounts reported may not agree to our prior reports due to information updates 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 slightly increased for the 2018 calendar year. After steady annual increases from the 2009 through 2014 calendar years, average county millage rates stabilized within a narrow range for the 2015 through 2017 fiscal years before again increasing in the 2018 calendar year. In contrast, the municipalities' average millage rates have increased each year from the 2009 through 2017 calendar years with a slight decrease in the 2018 calendar year.

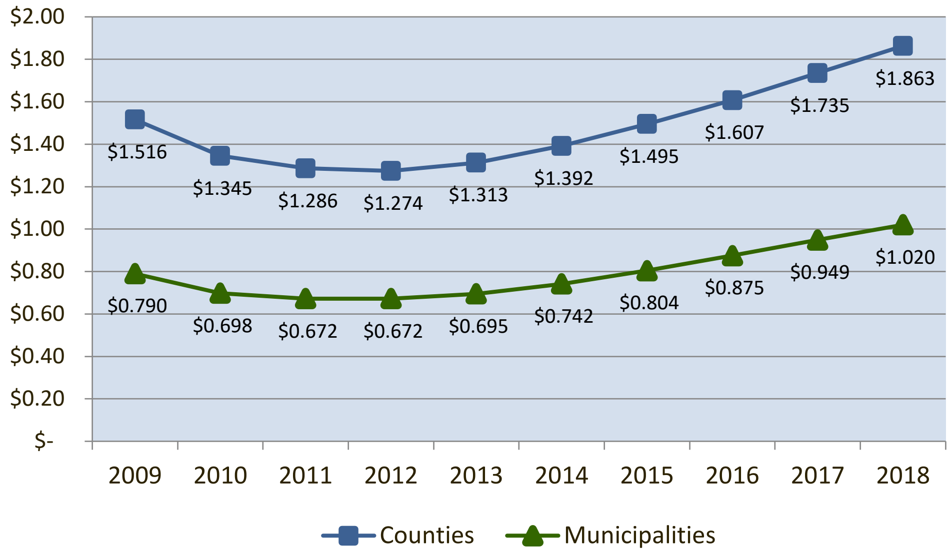
As depicted in Charts 4 and 5, there was an overall increase in the taxable property values and taxes levied over the 9-year period 2009 through 2018. Over that period, taxable property values for counties and municipalities increased by $347 billion (23 percent) and $231 billion (29 percent), respectively. Taxes levied also increased by $2 billion (29 percent) for counties and $1.4 billion (40 percent) for municipalities for the same period. Additionally, a comparison of 2009 and 2014 calendar year data for

[32] Sections 200.071 and 200.081, Florida Statutes.

counties shows notable variances, including a decrease in taxable property values and taxes levied. During the same period, taxable property values and taxes levied decreased for municipalities.

Chart 4
Taxable Property Values

For the 2009 Through 2018 Calendar Years [a]
(In Trillions)

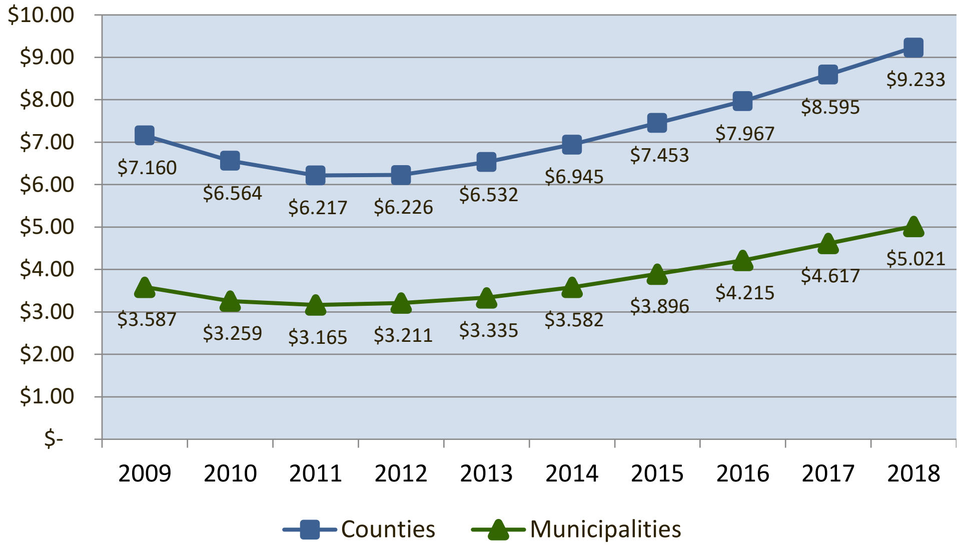


[a] Amounts depicted may not agree to those in our prior reports due to information updates in the Property Valuations and Tax Data by the Florida Department of Revenue.

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

Chart 5
Taxes Levied

For the 2009 Through 2018 Calendar Years [a]
(In Billions)



[a] Amounts depicted may not agree to those in our prior reports due to information updates 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 512 of the 1,398 local governmental entity 2017-18 fiscal year audit reports filed with us as of July 31, 2019, reported the existence of one or more employee defined benefit pension plans. These 512 audit reports related to 62 counties, 273 municipalities, and 177 special districts. The reported employee defined benefit pension plans include plans for general employees, firefighters, police officers, or some combination thereof (mixed).

Of the 512 local governmental entities reporting employee defined benefit pension plans, 348 local governmental entities (61 counties, 140 municipalities, and 147 special districts) participated in the Florida Retirement System (FRS). In addition, 219 of the 512 local governmental entities reported a total of 412 local pension plans (i.e., plans not part of the FRS), including 369 municipal plans (113 for general employees, 99 for firefighters, 116 for police officers, and 41 mixed pension plans), 39 special district plans (21 for general employees and 18 for firefighters), and 4 county plans (3 for firefighters and 1 for general employees).

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),[33] in its best practice publication, *Sustainable Funding Practices of Defined Benefit Pension Plans*, indicates that a

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

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 benefiting 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 ratio[34] 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 Liability[35] 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.

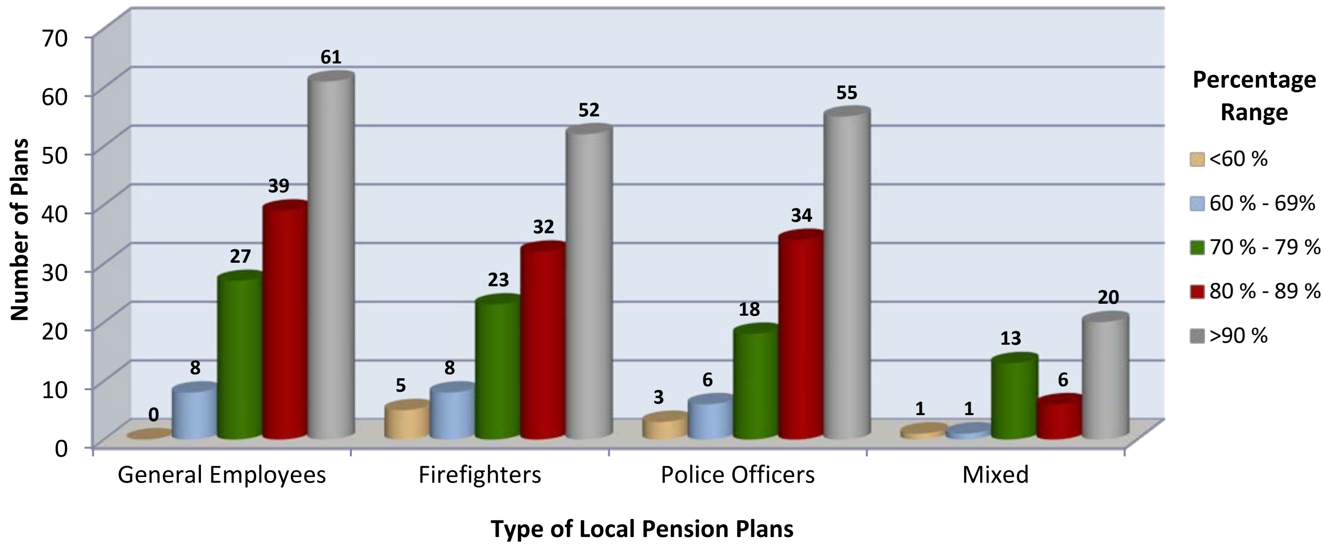
Chart 6 illustrates, for the local pension plans that reported Plan Fiduciary Net Position as a Percentage of Total Pension Liability for the 2017-18 fiscal year as required by GASB Statement Nos. 67 and 68, ranges of reported percentages by local pension plan type (i.e., general employees, firefighters, police officers, and mixed). For comparative purposes, as of June 30, 2018, the FRS reported 84.26 percent as the Plan Fiduciary Net Position as a Percentage of Total Pension Liability.

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

[35] 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.

Chart 6
Local Pension Plans Reported Plan Fiduciary Net Position
As a Percentage of Total Pension Liability

For the 2017-18 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 2007-08 through 2017-18 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.

Table 6 shows that 143 entities reported net deficit total assigned and unassigned[36] or unrestricted fund equities at the 2017-18 fiscal year end, which represents a 4 percent increase from the number of entities that reported deficits at the 2012-13 fiscal year end, and a 107 percent increase over the number of entities that reported deficits at the 2007-08 fiscal year end. Although local governments are not statutorily required to maintain a specified level of assigned and unassigned or unrestricted fund equity,

[36] For comparison purposes, the assigned and unassigned fund balance classifications pursuant to GASB Statement No. 54 are similar to unreserved fund balance used in reports prior to the 2010-11 fiscal year.

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

For the 2007-08, 2012-13, and 2017-18[a] Fiscal Years

	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2007-08	2012-13	2017-18	2007-08	2012-13	2017-18	2007-08	2012-13	2017-18	2007-08	2012-13	2017-18
Total Number of Reports Reviewed[b]	66	66	63	381	384	366	979	989	1,113	1,426	1,439	1,542
Number of reports that:												
Reported net deficit total assigned and unassigned or unrestricted fund equity.	2	-	1	7	10	8[c]	60	127	134[c]	69	137	143
Reported no assigned and unassigned or unrestricted fund equity.	-	-	-	2	-	-	146	80	90[d]	148	80	90
Experienced either excess expenditures over revenues in governmental operations or operating losses in proprietary operations.	53	58	49	296	276	242[e]	490	528	540[e]	839	862	831
Experienced net losses when both governmental and proprietary funds were taken into account.	35	52	31	228	189	151[f]	482	521	530[f]	745	762	712
Experienced net losses and reported net deficit assigned and unassigned or unrestricted fund equity.	1	-	1	5	6	5	92	103	98	98	109	104

[a] For the 2007-08 fiscal year, pre-GASB Statement No. 54 terminology (i.e., unreserved or unrestricted fund equity) was used for the fund equity amounts.

[b] The totals include both audit reports and annual financial reports reviewed. For the 2017-18 fiscal year, the total number of reports reviewed includes the 1,398 audit reports received through July 31, 2019, and 144 annual financial reports.

[c] Annual financial reports reviewed for 1 municipality and 13 special districts reported net deficit total assigned and unassigned or unrestricted fund equity.

[d] Annual financial reports reviewed for 42 special districts reported no assigned and unassigned or unrestricted fund equity.

[e] Annual financial reports reviewed for 4 municipalities and 64 special districts reported losses in either governmental or proprietary funds.

[f] Annual financial reports reviewed for 3 municipalities and 63 special districts indicated that the entities experienced net losses when both governmental and proprietary funds were considered.

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

Many entities transfer governmental fund resources to support proprietary fund operations. However, for the 2007-08, 2012-13, and 2017-18 fiscal years, the percentage of all entities reviewed with net losses (combining both governmental and proprietary funds) were 52 percent (745 of 1,426 reports), 53 percent (762 of 1,439 reports), and 46 percent (712 of 1,542 reports), respectively. From the 2012-13 fiscal year to the 2017-18 fiscal year, the percentage of counties that experienced net losses decreased from 79 to 49 percent; the percentage of municipalities that experienced net losses decreased from 49 to 41 percent; and the percentage of special districts that experienced net losses decreased from 53 to 48 percent.

Additionally, of the 712 entities that experienced net losses for 2017-18 fiscal year operations, 104 entities (7 percent of the 1,542 reports reviewed) also reported net deficit total assigned and unassigned or unrestricted fund equities at the 2017-18 fiscal year end.

Continued net losses and net deficit total assigned and unassigned or unrestricted fund equities may leave entities with insufficient funds to sustain current levels of services without borrowing funds from external sources. Additionally, those entities have less resources available for emergencies and unforeseen situations.

Other Trends

A total of 122 audited entities (11 municipalities and 111 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities at the 2017-18 fiscal year end, as compared to 135 entities at the 2012-13 fiscal year end, and 94 entities at the 2007-08 fiscal year end that similarly reported cash and investments. In addition, our examination of annual financial reports disclosed that 1 municipality and 55 special districts reported cash and investments in amounts not sufficient to cover current liabilities at the 2017-18 fiscal year end. Declining levels of cash and investments when 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 2017-18 fiscal year end, a decrease of $199 million, compared to $27.6 billion at the 2012-13 fiscal year end for the reports we reviewed 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 filed with 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,[37] 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 2017-18 fiscal year audit reports filed with us by July 31, 2019, for 63 counties (which included 370 individual county agency reports), 358 municipalities, and 977 special districts. The scope also included 8 municipality and 136 special district annual financial reports (filed with 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 1,451 entities (64 counties, 384 municipalities, and 1,003 special districts) through October 31, 2019, to identify entities that were reported as having met a condition specified in State law,[38] 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 1,705 entities (370 county agencies, 358 municipalities, and 977 special districts) in our analysis of significant findings. We included 1,398 entities (63 counties, 358 municipalities, and 977 special districts) in our analysis of significant financial trends (except for the analysis of fund equities and results of operations the results, as depicted in Table 6, where we also included annual financial reports for 8 municipalities and 136 special districts).

We planned and performed this review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for the summaries of significant findings and financial trends included in this report.

[37] Section 218.32(1)(e), Florida Statutes.
[38] 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 2017-18 fiscal year.

Sherrill F. Norman, CPA
Auditor General

EXHIBIT A

SUMMARY OF AUDIT FINDINGS
BY FINDING CATEGORY AND LOCAL GOVERNMENTAL ENTITY TYPE

FOR THE 2016-17 AND 2017-18 FISCAL YEARS

Category	Number of	County Agencies Fiscal Year 2016-17	County Agencies Fiscal Year 2017-18	Municipalities Fiscal Year 2016-17	Municipalities Fiscal Year 2017-18	Special Districts Fiscal Year 2016-17	Special Districts Fiscal Year 2017-18	Totals Fiscal Year 2016-17	Totals Fiscal Year 2017-18
Separation of Duties – Findings related to inadequate separation of duties.	Findings	19	23	39	42	25	25	83	90
	Entities	19	23	39	42	25	25	83	90
Budget Administration – Findings related to inadequate budgetary controls or noncompliance with legal requirements relating to budgets.	Findings	10	7	22	24	49	42	81	73
	Entities	9	7	19	23	49	41	77	71
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	33	32	80	61	36	36	149	129
	Entities	24	29	61	52	34	34	119	115
Financial Reporting – Findings related to reporting of financial data externally or within the local governmental entity.	Findings	25	23	61	48	45	48	131	119
	Entities	25	23	56	48	44	46	125	117
Cash – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks.	Findings	17	11	29	26	10	16	56	53
	Entities	16	10	27	24	9	15	52	49
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	9	10	27	39	18	17	54	66
	Entities	8	8	26	37	18	14	52	59
Debt Administration – Findings related to noncompliance with bond covenants or loan agreements and failure to make debt service payments.	Findings	-	-	13	17	62	55	75	72
	Entities	-	-	11	13	45	38	56	51
Revenues and Collections – Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable.	Findings	18	15	44	44	7	6	69	65
	Entities	14	14	36	35	6	5	56	54
Payroll and Personnel Administration – Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration.	Findings	10	12	38	33	14	20	62	65
	Entities	10	11	32	26	12	16	54	53
Expenditures and Expenses – Findings related to the expenditure of public funds.	Findings	9	10	19	14	19	19	47	43
	Entities	9	8	18	13	19	19	46	40
Other Findings	Findings	36	47	141	108	58	55	235	210
	Entities	29	38	103	86	52	49	184	173
Total Number of Findings		**186**	**190**	**513**	**456**	**343**	**339**	**1,042**	**985**

Note: Some entities had more than one finding in each category. In total, findings were included in audit reports for 93 county agencies, 169 municipalities, and 205 special districts.

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