



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



REPORT ON SIGNIFICANT FINDINGS AND FINANCIAL TRENDS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY AUDIT REPORTS AND ANNUAL FINANCIAL REPORTS

For the Fiscal Year Ended September 30, 2005

SUMMARY

Section 11.45(7)(f), Florida Statutes, requires that we annually compile and transmit to the Legislature a summary of significant findings and financial trends identified in either local governmental entity audit reports prepared by independent certified public accountants or, for entities not required to provide for an audit, local governmental entity annual financial reports. This report contains such a summary for 66 county, 386 municipality, and 623 special district audit reports prepared by independent certified public accountants, and 3 municipality and 44 special district annual financial reports for the fiscal year ended September 30, 2005, as of April 24, 2007.

Our application of financial indicators disclosed certain financial trends that may be indicative of deteriorating financial conditions, including high levels of ad valorem millage rates for lesser-populated counties and higher-populated municipalities; insufficient levels of unreserved fund equity; declining excess revenues over expenditures in governmental funds or decreasing operating incomes (or increasing operating losses) in proprietary funds; low or declining levels of cash and investments, as compared to current liabilities; and increasing long-term debt in governmental funds.

Our review of local governmental entity audit reports and annual financial reports for the fiscal year ended September 30, 2005, disclosed the following:

- Sixty-two of 1,075 (6 percent) local governmental entities were reported as

meeting one or more of the financial emergency conditions defined in Section 218.503(1), Florida Statutes, an increase of 33 percent from the prior fiscal year.

- Thirty of 1,075 (3 percent) local governmental entities were reported as experiencing deteriorating financial conditions, a decrease of 49 percent from the prior fiscal year.
- The number of findings included in audit reports decreased since the prior fiscal year and has decreased 20 percent since the 2000-01 fiscal year.
- Certain types of findings are frequently included in county, municipality, and special district audit reports. For many of the audit reports, the findings were not sufficiently descriptive to allow a determination as to the significance of the finding.
- A significant number of the findings included in audit reports for the 2004-05 fiscal year were findings that had also been included in audit reports for the prior fiscal year.

BACKGROUND

Section 11.45(2)(h), Florida Statutes, established as one of the goals of the local government financial reporting system the timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by the Legislature and other appropriate officials to improve the financial

condition of local governments. The Legislature has assigned local governmental entity independent auditors and us responsibilities related to monitoring financial condition of local governments as follows:

- Section 218.39(1), Florida Statutes, provides for local governmental entity financial audits.
- Section 11.45(7)(b), Florida Statutes, provides that we review, in consultation with the Florida State Board of Accountancy, all local governmental entity audit reports prepared by independent certified public accountants and submitted to us.
- Section 218.39(5), Florida Statutes, requires that independent auditors notify local governmental entities of deteriorating financial conditions that may cause a financial emergency condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Chapter 10.550, Rules of the Auditor General, requires that the independent auditor's management letter include recommendations addressing deteriorating financial conditions disclosed by the audit.
- Section 218.503(2), Florida Statutes, requires a local governmental entity to notify the Governor and the Legislative Auditing Committee when one or more of the financial emergency conditions specified in Section 218.503(1), Florida Statutes, has occurred or will occur if action is not taken to assist the entity. The local governmental entity's independent auditor is required by Chapter 10.550, Rules of the Auditor General, to state in its management letter whether or not the local governmental entity met one or more of the financial emergency conditions, and we are required to report these local governmental entities to the Governor and the Legislative Auditing Committee. The Governor is responsible for determining

whether the local governmental entity needs State assistance to resolve the financial emergency condition.

Section 11.45(7)(f), Florida Statutes, requires that we annually compile and transmit to the President of the Senate, Speaker of the House of Representatives, and the Legislative Auditing Committee a summary of significant findings and financial trends identified in local governmental entity audit reports or, for entities that are not required to provide for an audit, local governmental entity annual financial reports.

FINDINGS

Finding No. 1: Significant Financial Trends

Financial Emergency Conditions

Our review of the 1,075 local governmental entity 2004-05 fiscal year audit reports prepared by independent certified public accountants disclosed that a total of 62 entities (3 counties, 4 municipalities and 55 special districts) were reported as meeting one or more of the financial emergency conditions as defined by Section 218.503(1), Florida Statutes. In addition, our review of annual financial reports for unaudited entities disclosed 10 special districts that met the condition defined in Section 218.503(1)(e), Florida Statutes. This represents a 33 percent overall increase, in entities meeting one or more financial emergency conditions, from the 2003-04 fiscal year.¹ Of the entities reported as meeting one of the financial emergency conditions as of September 30, 2005, 25 (2 municipalities and 23 special districts) were reported as meeting one or more financial emergency conditions as of September 30, 2004.

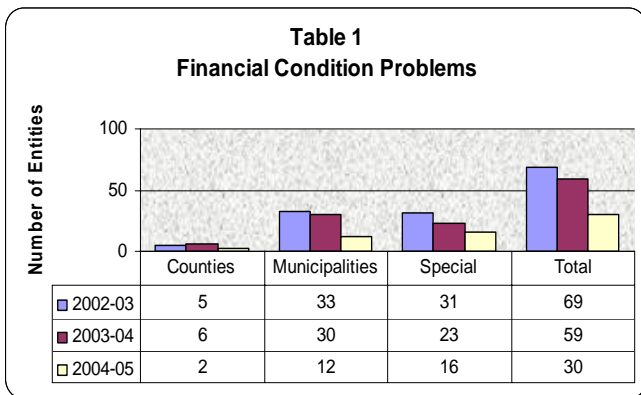
As required by Section 10.554(1)(h)6.c.2., Rules of the Auditor General, if the auditor has reported that the

¹ The number of entities reported as meeting one or more of the financial emergency conditions as defined by Section 218.503(1), Florida Statutes, for the 2003-04 fiscal year differs from the number reported in report No. 2006-202 because additional reports for that fiscal year were received subsequent to the release of report No. 2006-202.

entity met one or more of the financial emergency conditions specified in Section 218.503(1), Florida Statutes, the auditor shall specify whether such financial emergency condition was a result of deteriorating financial conditions. For 10 of the 62 entities reported as meeting one or more of the financial emergency conditions as of September 30, 2005, the auditors indicated that the condition resulted from deteriorating financial conditions.

Financial Condition Problems

A total of 30 entities (2 counties, 12 municipalities, and 16 special districts) were reported as experiencing financial condition problems as of September 30, 2005, which represents a 49 percent decrease in comparison with the 2003-04 fiscal year as shown in Table 1:²



Financial Trends

Our application of financial indicators (see Appendix A) to financial and other information obtained for the counties, municipalities, and special districts evaluated for the 2000-01 through 2004-05 fiscal years disclosed certain significant financial trends as discussed below. The financial trends presented below are based on a desk review of audit reports and annual financial reports and do not represent individual financial condition assessments of particular entities. Such assessments are the responsibility of the local

government entities and their independent auditors and require information that can only be obtained through examination of entity records and inquiry of entity management.

Although independent auditors of local governmental entities are required to apply financial condition assessment procedures, they are not required to utilize the financial indicators shown on Appendix A. In addition, there may be information available to the entity’s independent auditors to explain why unfavorably rated financial indicators are not indicative of deteriorating financial conditions. As such, for local governmental entities for which our application of financial indicators discloses potentially significant deteriorating financial conditions, but for which the audit report discloses no financial condition problems, we contact the independent auditor and the local governmental entity to seek clarification as to what financial condition assessment procedures the independent auditor used and the independent auditor’s basis for concluding that no deteriorating financial conditions exist.

Millage Rates, Taxable Property Values and Taxes Levied

For the 2004-05 fiscal year, the average ad valorem millage rate was 7.3751 for counties and 4.3675 for municipalities. The average millage rate has decreased slightly for counties and increased slightly for municipalities since the 2000-01 fiscal year. As noted in prior fiscal years, we found that, on average, lesser-populated counties and higher-populated municipalities had higher 2005 millage rates than higher-populated counties and lower-populated municipalities, as shown in the following table:

² The number of entities reported as experiencing financial condition problems for the 2003-04 fiscal year differs from the number reported in report No. 2006-202 because additional reports for that fiscal year were received subsequent to the release of report No. 2006-202.

Table 2			
Counties		Municipalities	
Population Range	Average 2005 Millage	Population Range	Average 2005 Millage
< 25,000	9.0970	< 1,000	2.9006
25,000 – 74,999	8.1114	1,000 – 2,999	4.3877
75,000 – 224,999	6.2736	3,000 – 9,999	4.4708
225,000 – 674,999	6.2855	10,000 – 24,999	4.5608
675,000 +	5.8630	25,000 – 99,999	5.1887
		100,000 +	5.7996

We also noted, for the 2004-05 fiscal year, that 15 counties and 3 municipalities established millage rates at or near the statutory maximum of 10 mills (9.5 mills or greater), as compared to 16 counties and 4 municipalities for the prior fiscal year. Entities with millage rates near or at the statutory maximum may be unable to raise additional funds when needed.

While average millage rates for counties and municipalities have not changed significantly in the past four years, taxable property values have increased 65 percent for counties and municipalities, from the 2000-01 to the 2004-05 fiscal year. Thirty-seven counties and 228 municipalities experienced taxable property value increases of at least 50 percent during that period.

As taxable property values have increased and millage rates have remained relatively stable, taxes levied by counties and municipalities have increased 57 percent from the 2000-01 to the 2004-05 fiscal year. A summary of average millage rates, total taxable property values, and total taxes levied by counties and municipalities over the five-year period are shown in the tables below:

Table 3			
Counties			
Year	Average Millage	Taxable Property Values	Taxes Levied
2001	7.5674	\$802,204,410,529	\$4,920,934,478
2002	7.5942	\$882,238,222,735	\$5,376,679,580
2003	7.5650	\$983,202,198,788	\$5,957,111,802
2004	7.4974	\$1,105,948,754,799	\$6,570,744,816
2005	7.3751	\$1,314,438,294,845	\$7,586,284,807

Table 4			
Municipalities			
Year	Average Millage	Taxable Property Values	Taxes Levied
2001	4.3295	\$411,130,619,849	\$2,002,100,239
2002	4.4184	\$453,402,682,823	\$2,207,838,534
2003	4.3834	\$509,147,278,546	\$2,438,905,213
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,149,650,033	\$3,272,784,498

The increasing average taxable property values, together with minimally changed average millage rates, have resulted in significantly increased taxes levied by the counties and municipalities from the 2000-01 to the 2004-05 fiscal year. For counties, taxable property values increased 64 percent, while average millage rates declined 2.5 percent, resulting in an increase in taxes levied of 54 percent. For municipalities, taxable property values increased 66 percent, while average millage rates increased .88 percent, resulting in an increase in taxes levied of 63 percent.

Fund Equity and Results of Operations

Many special districts reported no unreserved or unrestricted fund equities (i.e., fund balances or net assets), or deficit unreserved/unrestricted fund equities. In addition, three counties and four municipalities reported deficit unreserved/unrestricted fund equities as of September 30, 2005. Although local governments are not statutorily required to maintain a specified level of unreserved/unrestricted fund equity, the ability of these entities to maintain adequate service levels and fund capital acquisitions may be diminished if sufficient fund equity is not maintained. Numerous entities have also experienced declining

excess revenues over expenditures in governmental funds, or decreasing operating incomes (or increasing operating losses) in proprietary funds, which may indicate that these entities' current revenues are not sufficient or current expenditures/expenses are excessive. Although many entities use excess revenues in governmental funds to support proprietary fund operations, or vice versa, we found that several entities experienced net losses when both governmental and proprietary funds were taken into account. Additionally, of the entities that experienced net losses, several also reported net deficit

unreserved/unrestricted fund equities as of September 30, 2005. Such entities may not have sufficient funds to sustain current services without having to borrow funds from outside sources, and expenditures for hurricane damages that do not qualify for reimbursement from the Federal Emergency Management Agency (or State funds) could further negatively impact these entities' ability to maintain required service levels. The following table shows comparative results of our analysis for the 2002-03 through 2004-05 fiscal years.

Table 5												
Condition	Counties			Municipalities			Special Districts			Totals		
	FY 2003	FY 2004	FY 2005	FY 2003	FY 2004	FY 2005	FY 2003	FY 2004	FY 2005	FY 2003	FY 2004	FY 2005
Reported deficit total unreserved/unrestricted fund equity.	0	0	3	13	4	4	52	46	62	65	50	69
Reported no unreserved/unrestricted fund equity.	0	0	0	0	0	0	39	63	54	39	63	54
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	52	53	31	276	293	228	311	323	422	639	669	681
Experienced net losses when both governmental and proprietary funds were taken into account.	41	42	17	204	195	145	304	317	385	549	554	547
Experienced net losses and reported net deficit unreserved/unrestricted fund equity.	0	0	0	8	3	2	36	30	57	44	33	59

As shown in Table 5, 547 (49 percent) of the 1,122 local governmental entity 2004-05 fiscal year audit reports and annual financial reports submitted to us as of April 24, 2007, experienced net losses (i.e., total expenditures and expenses exceeded total revenues and operating income for governmental and proprietary funds combined). This was noted for 26, 38, and 62 percent of the county, municipality, and special district reports, respectively, submitted to us. This trend, as well as reported deficits in total unreserved/unrestricted fund equity, have been improving for counties and municipalities, while

worsening for special districts. Some of the improvement for counties and municipalities may be attributable to increases in ad valorem tax revenues. Taxes levied have increased by \$2,665,350,329 for counties and \$1,270,684,259 for municipalities (up 54 and 63 percent, respectively), since the 2000-01 fiscal year. However, as noted in Table 5, many counties and municipalities are still experiencing excess expenditures over revenues or operating losses. Reported unreserved/unrestricted fund equity, revenue, and expenditure information, by entity, is available on our Web site at

<http://www.state.fl.us/audgen> (click on Local Govt/Nonprofit, Local Governmental Entity Financial Condition Assessment Procedures, INSTRUCTIONS-EXCEL).

Regarding unaudited entities, included in Table 5 are 8 special districts that reported no unreserved/unrestricted fund equity on their 2005 annual financial reports. Additionally, 10 special districts reported deficit unreserved/unrestricted fund equity on their 2005 annual financial reports. Average unreserved/unrestricted fund equity as of September 30, 2005, reported on annual financial reports was \$14,599 for the 44 special districts, and \$156,844 for the 3 municipalities. Twenty-one special districts reported losses in either governmental or proprietary funds and net losses when both governmental and proprietary funds were considered.

Other Trends

A total of 96 audited entities (2 counties, 21 municipalities and 73 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2005, as compared to 87 as of September 30, 2004. Of these, 52 also experienced declining levels of cash and investments as compared to current liabilities over the past three to five years in governmental funds, proprietary funds, or both, as compared to 44 for the prior fiscal year. In addition, 15 special districts reporting via annual financial reports, reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2005. Declining levels of cash and investments as compared to current liabilities may indicate a diminishing ability to generate sufficient cash to meet obligations.

Long-term debt reported in governmental funds increased by a total of \$5.1 billion, or 31 percent, from the 2000-01 to the 2004-05 fiscal years for entities from which we received audit reports for both fiscal years. The long-term debt reported by counties has increased \$2.3 billion (from \$7.7 billion to \$10 billion, or 30 percent) and the long-term debt reported by municipalities has increased \$2.8 billion (from \$5.9

billion to \$8.7 billion, or 48 percent) since the 2000-01 fiscal year. For unaudited entities, there was no long-term debt reported on their 2005 annual financial reports.

Finding No. 2: Significant Findings

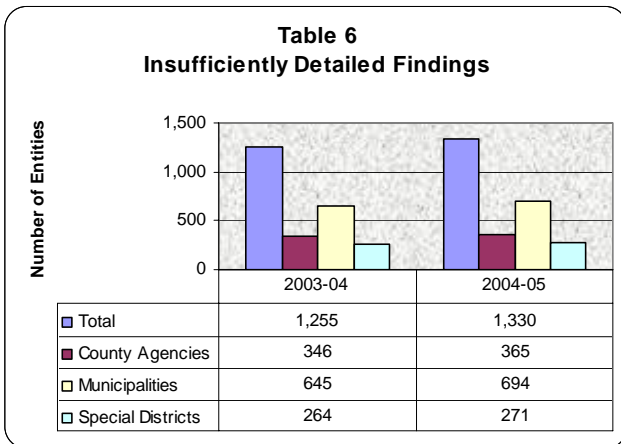
Material Audit Findings

Findings of the greatest significance include those that have a material impact on the fair presentation of the financial statements and may result in a modification of the independent auditor's opinion on the financial statements. Modified opinions include: (1) qualified opinions, whereby the auditor states that except for the effects of the matter(s) to which the qualification relates, the financial statements are fairly presented; (2) adverse opinions, whereby the auditor states that the financial statements are not fairly presented; and (3) disclaimers of opinion, whereby the auditor does not express an opinion. Only 20 (1 percent) of the 1,397 (including 388 county agency, 386 municipality, and 623 special district) audit reports reviewed for the 2004-05 fiscal year contained modified opinions (2 county agencies, 11 municipalities, and 7 special districts). Of the 20, 15 were qualified opinions (2 county agencies, 8 municipalities, 5 special districts), 2 were adverse opinions (1 municipality, 1 special district), and there were 3 disclaimers of opinion (2 municipalities, 1 special district). Most of the qualified opinions and adverse opinions were the result of inadequate documentation to support fixed assets or omitted required supplementary information for amounts reported on the financial statements. The disclaimers of opinion resulted from inadequate financial records. The overall percentage of 2004-05 fiscal year audit reports that included modified opinions remained the same in comparison with the prior fiscal year.

Significance of Audit Findings

Chapter 10.550, Rules of the Auditor General for Local Governmental Entity Audits, prescribes the required elements of audit report findings. Of the 2,628 findings in the audit reports reviewed, 1,330 (51

percent) did not include one or more of the required elements. As shown in Table 6, this represents a slight increase in the total number of insufficiently detailed findings reported for the 2004-05 fiscal year in comparison with the prior fiscal year. However, as shown in Table 7, since the total number of findings reported for the 2004-05 fiscal year decreased by three percent as compared to the prior fiscal year, the relative overall percentage of insufficiently detailed findings represents an increase from 46 to 51 percent.



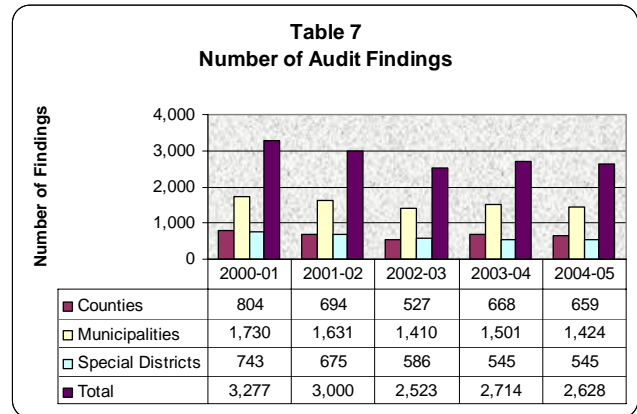
The total percentage of insufficiently detailed findings remains high. Most such findings did not adequately provide one or more of the following, contrary to Section 10.557(6), Rules of the Auditor General:

- A description of the criteria or specific requirement upon which the audit finding was based (e.g., statutory, regulatory, or other citation).
- A description of the condition found, including facts that support the deficiency identified in the finding.
- A proper perspective for judging the prevalence and consequences of the finding, such as whether the findings represent an isolated instance or a systemic problem (e.g., the number of records examined and the quantity or dollar value of deficiencies noted).

Consequently, in many instances, it was not possible for us to determine the significance of the findings.

Number of Audit Findings

The number of local governmental entity audit reports submitted to us has increased by 155 (from 920 to 1,075, or 17 percent) since the 2000-01 fiscal year. However, as shown in Table 7, the number of findings has decreased by 649 (from 3,277 to 2,628, or 20 percent) during the same time period:



Our reviews were limited to only the contents of the audit reports submitted to us and, as such, we could not determine the specific factors that caused the significant decrease in audit report findings for the last five fiscal years.

Categories of Audit Findings

We established categories of findings and classified the various audit findings included in the county, municipality, or special district audit reports accordingly. Summaries of the number of reports that included the predominant and most significant audit findings included in the 388 county agency, 386 municipality, and 623 special district audit reports reviewed for the 2004-05 fiscal year are presented below by category. In addition, a summary by type of local governmental entity, with comparative prior fiscal year information, is included as Appendix B.

Separation of Duties

For 66 (17 percent) of the county agency reports, 66 (17 percent) of the municipality reports, and 50 (8 percent) of the special district reports, findings were noted regarding an inadequate separation of duties or responsibilities. This represents 13 percent of all

reports and represents the same percentage of reports with *Separation of Duties* findings in comparison with the prior fiscal year. Inadequate separation of duties or responsibilities increases the possibility that errors or irregularities may occur and not be detected on a timely basis and diminishes the local governmental entity's ability to properly safeguard assets. Many of these involved instances in which the county agencies, municipalities, and special districts contended that their staffs were small and it was not feasible economically to further separate duties or responsibilities. However, there were several instances in which the independent auditor recommended that the county agency, municipality, or special district reassign duties and responsibilities or establish compensating controls.

Policies and Procedures

For 16 (4 percent) of the county agency reports, 58 (15 percent) of the municipality reports, and 31 (5 percent) of the special district reports, policies and procedures were not established or were not followed to ensure that public business was conducted in accordance with laws, rules, ordinances, or good business practices. This represents 8 percent of all reports and represents a 1 percent increase in the percentage of reports with *Policies and Procedures* findings in comparison with the prior fiscal year.

Budget Administration

For 26 (7 percent) of the county agency reports, 62 (16 percent) of the municipality reports, and 55 (8 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements for adopting and amending the budget, or inadequate budgetary controls. This represents 10 percent of all reports and represents a 1 percent decrease in the percentage of reports with *Budget Administration* findings in comparison with the prior fiscal year. These findings included problems relating to failure to properly adopt a budget, inadequate budgetary procedures, failure to budget for all funds or projects, and budget overexpenditures. Examples included a sheriff that failed to amend the budget to include

additional grant funding, a municipality with general fund expenditures that exceeded the legal budget by \$880,000, and a special district that did not have procedures to regularly compare budgeted to actual expenditures. Such budgetary problems affect an entity's ability to demonstrate to the citizenry its proper use of public resources, and could result in inefficient or inappropriate use of its resources, resulting in deteriorating financial conditions.

General Accounting Records

For 48 (12 percent) of the county agency reports, 90 (23 percent) of the municipality reports, and 25 (4 percent) of the special district reports, findings were noted regarding inadequate accounting or other records, lack of subsidiary records or failure to timely reconcile subsidiary records to general ledger control accounts, and improper recording of transactions to the accounting records (excludes findings of this nature that are addressed below under other subheadings). This represents 12 percent of all reports and represents the same percentage of reports with *General Accounting Records* findings in comparison with the prior fiscal year. Examples included a board of county commissioners that accounted for approximately \$30 million in hurricane-related revenues and expenditures using activity codes in its general fund as opposed to using special revenue funds designed to specifically track these funds, a municipality that failed to reconcile general ledger balances to detailed subsidiary records for accounts payable, and a special district that did not maintain a general ledger for its special revenue fund or debt service fund. Such recordkeeping problems affect an entity's ability to monitor its use of public resources and increase the risk of inappropriate or inefficient use of its resources. Improper recording of transactions also affects the reliability of the entity's reporting of its financial position and results of its operations.

Financial Reporting

For 18 (5 percent) of the county agency reports, 39 (10 percent) of the municipality reports, and 12 (2 percent) of the special district reports, findings were noted

relating to the reporting of financial data either externally or within the local governmental entity. This represents 5 percent of all reports and represents the same percentage of reports with *Financial Reporting* findings in comparison with the prior fiscal year. Examples included a clerk of the court that prepared several inaccurate court-related performance standards reports required by the Florida Clerk of Courts Operations Corporation, a municipality that filed an inaccurate annual financial report with the Department of Financial Services, and a special district that did not provide accurate monthly financial statements to its board. Such financial reporting problems affect an entity's ability to demonstrate compliance with legal and contractual requirements, and to provide assurance to interested parties (including its governing body) that it is in sound financial condition and is using its public resources in an efficient and appropriate manner.

Cash

For 28 (7 percent) of the county agency reports, 65 (17 percent) of the municipality reports, and 20 (3 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks. This represents 8 percent of all reports and represents the same percentage of reports with *Cash* findings in comparison with the prior fiscal year. These findings included inadequate or untimely bank reconciliations, stale-dated checks, inaccurate recording of cash transactions, and other cash accountability issues, including noncompliance with applicable legal requirements. Examples included a clerk of the court that did not properly void stale-dated checks after a reasonable time, a municipality that did not reconcile bank accounts and resolve discrepancies in a timely manner, and a special district that did not establish adequate controls over petty cash amounts on hand. Such cash accountability problems increase the risk of unauthorized disbursements or losses of cash that could occur without being promptly detected.

Fixed Assets

For 35 (9 percent) of the county agency reports, 109 (28 percent) of the municipality reports, and 41 (7 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements pertaining to fixed assets and the improper use of, and lack of accountability for, fixed assets. This represents 13 percent of all reports and represents the same percentage of reports with *Fixed Assets* findings in comparison with the prior fiscal year. These findings included inadequate or lack of fixed asset records, failure to timely reconcile subsidiary fixed asset records to general ledger control accounts, failure to perform an annual inventory and compare the inventory to fixed asset records, failure to properly identify or tag property, and unauthorized disposals of fixed assets. Examples included a board of county commissioners that did not reconcile its subsidiary fixed asset records to general ledger control accounts, resulting in a \$3.7 million discrepancy; a municipality that did not properly tag property or perform an annual inventory and reconcile it to the property records; and a special district that did not follow fixed asset disposal procedures required by law. Fixed asset accountability problems affect an entity's ability to safeguard its fixed assets and increase the risk that fixed assets could be misappropriated without being promptly detected.

Revenues/Collections

For 49 (13 percent) of the county agency reports, 102 (26 percent) of the municipality reports, and 27 (4 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable. This represents 13 percent of all reports and represents a 1 percent decrease in the percentage of reports with *Revenues/Collections* findings in comparison with the prior fiscal year. These findings included improper recording of revenue or accounts receivable transactions, improper documentation for the receipt of revenues, lack of an adequate fee structure, untimely deposits, and deposits

not made intact. Examples included a board of county commissioners that did not establish adequate procedures for collecting accounts receivable; a municipality that did not properly record grant revenue or file timely claims for reimbursement of grant-related expenditures; and a special district that did not have adequate procedures in the receiving, depositing, and recording of cash receipts. Such revenue and accounts receivable problems affect an entity's ability to ensure that cash collections are safeguarded against loss from unauthorized use or disposition. Failure to assess and collect all revenues to which the entity is entitled could contribute to deteriorating financial conditions.

Payroll and Personnel Administration

For 26 (7 percent) of the county agency reports, 68 (18 percent) of the municipality reports, and 32 (5 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration. This represents 9 percent of all reports and represents a 2 percent decrease in the percentage of reports with *Payroll and Personnel Administration* findings in comparison with the prior fiscal year. These findings included improper authorization and payment of salaries and benefits to employees, improper recording of payroll/personnel transactions, failure to properly and timely remit payroll taxes withheld, and other payroll/personnel matters. Examples included a board of county commissioners that did not maintain payroll records for employee compensatory leave accrued and utilized, a municipality that did not deposit employer contributions to the Police and General Employees' Pension Plan in a timely manner, and a special district that did not pay its board of commissioners from its regular payroll system and withhold the related payroll taxes pursuant to federal law. Such personnel and payroll problems affect an entity's ability to demonstrate compliance with legal requirements and increase the risk of inappropriate or inefficient use of public resources.

Purchasing/Contract Management

For 41 (11 percent) of the county agency reports, 64 (17 percent) of the municipality reports, and 18 (3 percent) of the special district reports, findings were noted regarding procurement of goods or services and contract or grant management. This represents 9 percent of all reports and represents a 3 percent decrease in the percentage of reports with *Purchasing/Contract Management* findings in comparison with the prior fiscal year. These findings included lack of monitoring and compliance with grant provisions, failure to use purchase orders, lack of documented prior approval for purchases, noncompliance with bid/quotation requirements, and lack of documentation of receipt of goods or services. Examples included a board of county commissioners that did not have adequate procedures to prohibit and detect personal purchases made by employees on county purchasing cards, a municipality that had not implemented procedures to ensure adequate oversight of grant administration, and a special district that had not implemented a written purchase order system to properly document pre-approval of expenditures. Such purchasing/contract management problems affect an entity's ability to demonstrate compliance with legal and contractual requirements, and to monitor its use of public resources, increasing the risk of inappropriate or inefficient use of public resources.

Expenditures/Expenses

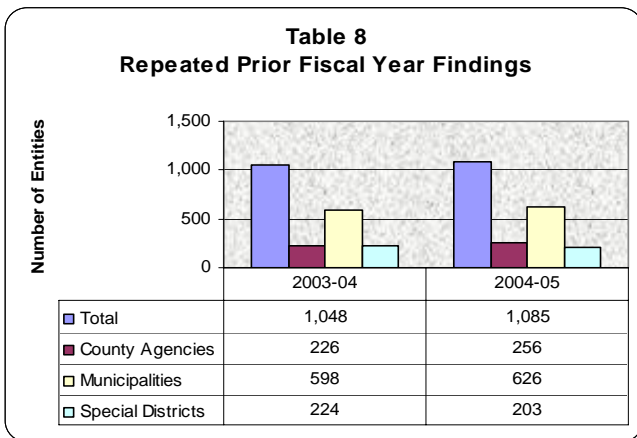
For 33 (9 percent) of the county agency reports, 56 (15 percent) of the municipality reports, and 26 (4 percent) of the special district reports, findings were noted regarding the expenditure of public funds. This represents 8 percent of all reports and represents a 1 percent decrease in the percentage of reports with *Expenditures/Expenses* findings in comparison with the prior fiscal year. These findings included instances where expenditures were not properly documented, were not properly approved or recorded, could be made more efficiently, were not promptly made, were not made in compliance with legal guidelines, laws, rules, or procedures, or were not made for a proper

purpose. Examples included a board of county commissioners that expended \$2,358 for hospitality and entertainment that did not serve a public purpose, a municipality with inadequate procedures for recognition of liabilities and expenditures that resulted in numerous instances of unrecorded and duplicate liabilities, and a special district that did not maintain supporting documentation for credit card purchases. Such expenditure/expense problems affect an entity’s ability to demonstrate compliance with legal requirements, and increase the risk of inappropriate or inefficient use of public resources.

RECOMMENDATION FOR THE LEGISLATURE

Prior Audit Findings

A significant number of the findings included in audit reports for the 2004-05 fiscal year were also included in audit reports for the prior fiscal year. Of the 2,628 findings included in the audit reports reviewed, 1,085 (41 percent) were repeated from prior fiscal year audit reports. As shown in Table 8, there was a slight increase in the total number of repeated prior fiscal year findings for the 2004-05 fiscal year. The percentage of repeated prior fiscal year findings to total findings increased from 39 to 41 percent:



Many of these repeated findings for the 2004-05 fiscal year were also included in 2002-03 fiscal year audit reports. The percentage of repeated findings indicates that some county agencies, municipalities, and special districts are not addressing audit findings in a timely manner.

Recommendation: The Legislature should consider amending Section 218.39, Florida Statutes, to include provisions that encourage local governmental entities to take timely and appropriate action to address audit findings. For example, the Legislature could require local governmental entities to document in the public records, within a specified time period after the release of the audit report, corrective actions taken and reasons for any lack of corrective actions in response to recommendations contained in the report.

METHODOLOGY


The methodology used to develop the findings in this report included the examination of local governmental entity audit reports in accordance with applicable Generally Accepted Government Auditing Standards.

SCOPE AND OBJECTIVES

The scope of this review included the 2004-05 fiscal year audit reports submitted to us through April 24, 2007, by 66 counties (which include 388 individual county agency reports), 386 municipalities, and 623 special districts. The scope also included 3 municipality and 44 special district annual financial reports submitted to the Florida Department of Financial Services (FDFS) pursuant to Section 218.32(1)(e), Florida Statutes, by entities that were not required to provide for an audit. Our objective was to identify significant findings and financial trends based on our review of the audit reports, and to identify financial trends using information on the annual financial reports. Although all local governmental entities are required to file annual financial reports with the FDFS, all references to annual financial reports in this report pertain only to those we used in determining financial trends for unaudited entities. As a result, financial trends based on annual financial reports included herein is based, in part, on unverified balances.

AUTHORITY

Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the results of our summary of significant findings and financial trends identified in review of local governmental entity audit reports prepared by independent certified public accountants or, for entities not required to provide for an audit, local governmental entity annual financial reports, for the fiscal year ended September 30, 2005.



William O. Monroe, CPA
Auditor General

This review was conducted by Kathryn A. Brewer, CPA, and Daniel P. Owens, CPA, and supervised by Marilyn D. Rosetti, CPA. Please address inquiries regarding this report to James M. Dwyer, CPA, Audit Manager, via e-mail at jimdwyer@aud.state.fl.us or by telephone at (850) 487-9031.

This report, as well as other reports prepared by the Auditor General, can be obtained on our Web site at www.state.fl.us/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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APPENDIX A
FINANCIAL INDICATORS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

<i>FINANCIAL INDICATOR</i>	<i>WARNING TREND</i>
Unreserved Fund Balance + Unrestricted Net Assets (Constant \$)	Declining results may indicate that the entity could have difficulty maintaining a stable tax and revenue structure or adequate level of services. Deficits may indicate a financial emergency.
Unreserved Fund Balance/Total Expenditures	Percentages decreasing over time may indicate unstructured budgets that could lead to future budgetary problems for the entity even if current fund balance is positive.
Cash & Investments/Current Liabilities Cash & Investments/Total Expenditures or Expenses Divided by 12	Percentages decreasing over time may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet current needs.
Current Liabilities/Total Revenues or Total Operating Revenues	Increasing results may indicate liquidity problems, deficit spending, or both.
Long-Term Debt/Population	Percentages increasing over time may indicate that the entity has a decreasing level of flexibility in how resources are allocated or decreasing ability to pay long-term debt.
Excess of Revenues Over (Under) Expenditures/Total Revenues	Decreasing surpluses or increasing deficits may indicate that current revenues are not supporting current expenditures.
Operating Income(Loss)/Total Operating Revenues	Decreasing income or increasing losses may indicate that current revenues are not supporting current expenses.
Intergovernmental Revenues/Total Revenues or Total Operating Revenues	Percentages increasing over time indicate a greater risk assumed by the entity due to increased dependence on outside revenues.
Unreserved Fund Balances or Unrestricted Net Assets/Total Revenues or Total Operating Revenues	Decreasing results may indicate a reduction in the entity's ability to withstand financial emergencies or fund capital purchases without having to borrow.
Total Revenues (Constant \$)/Population	Decreasing results indicate that the entity may be unable to maintain existing service levels with current revenue sources.
Debt Service/Total Expenditures	Percentages increasing over time may indicate declining flexibility the entity has to respond to economic changes.
Total Expenditures or Expenses (Constant \$)/Population	Increasing results may indicate that costs of providing services are outstripping the entity's ability to pay (i.e., entity may be unable to maintain services at current levels).
Millage Rate	Millage rates approaching the statutory limit may indicate that the entity has a reduced ability to raise additional funds when needed.

Note: For some of the financial indicators, it is necessary to adjust for inflation by translating current dollars into constant dollars.

APPENDIX B
SUMMARY OF NUMBER OF REPORTS INCLUDING PREDOMINANT AND SIGNIFICANT AUDIT FINDINGS
BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

<u>Category</u>	<u>Counties</u>		<u>Municipalities</u>		<u>Special Districts</u>		<u>Total</u>	
	<u>Fiscal Year</u>		<u>Fiscal Year</u>		<u>Fiscal Year</u>		<u>Fiscal Year</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Separation of Duties – Findings related to inadequate separation of duties	67	66	62	66	45	50	174	182
Policies and Procedures – Findings related to general lack of policies and procedures	17	16	57	58	18	31	92	105
Budget Administration – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	36	26	62	62	51	55	149	143
General Accounting Records – Findings related to inadequate accounting or other records, failure to timely reconcile subsidiary records to control accounts, or inadequate recording of transactions (excludes fixed assets)	36	48	88	90	40	25	164	163
Financial Reporting – Findings related to reporting of financial data externally or within the local governmental entity	25	18	34	39	14	12	73	69
Cash – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	34	28	57	65	19	20	110	113
Fixed Assets - Findings related to noncompliance with legal requirements pertaining to fixed assets and the improper use of, and lack of accountability for, fixed assets	33	35	101	109	37	41	171	185
Revenues/Collections - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	51	49	110	102	24	27	185	178
Payroll and Personnel Administration - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	31	26	85	68	29	32	145	126
Purchasing/Contract Management - Findings related to problems with procurement of goods or services and contract or grant management	46	41	86	64	25	18	157	123
Expenditures/Expenses - Findings related to the expenditure of public funds	23	33	69	56	24	26	116	115