



# AUDITOR GENERAL

WILLIAM O. MONROE, CPA



## REVIEW OF LOCAL GOVERNMENTAL ENTITY AUDIT REPORTS PREPARED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

For the Fiscal Year Ended September 30, 2005

### SUMMARY

We are required to review all local governmental entity audit reports submitted pursuant to Section 218.39, Florida Statutes. For the 2004-05 fiscal year audit reports we reviewed, we determined that they were generally presented in accordance with government auditing standards, generally accepted accounting principles, and Rules of the Auditor General. However, we noted some instances in which reports were not provided for our review or were not prepared in accordance with all applicable requirements, as follows:

- As of April 24, 2007, 13 municipalities and 13 special districts required to provide for an audit, and 22 special districts that may have been required to provide for an audit, had not submitted an audit report to us. Additionally, 251 local governmental entities did not submit the audit report timely. (Finding No. 1)
- Audits of 17 local governmental entities were performed by 9 different audit firms who did not hold active licenses or temporary permits issued by the Florida Board of Accountancy as of the date of the auditors' reports on the financial statements. (Finding No. 2)
- Reviews of audit reports submitted disclosed instances of apparent noncompliance with certain requirements, primarily relating to presentation of auditor's reports and presentation of financial statement note disclosures. (Finding No. 3)
- Comprehensive reviews of samples of audit reports disclosed several instances of apparent noncompliance with Governmental Accounting Standards Board Statement No. 34 requirements, primarily relating to

presentation of financial statements and certain note disclosures. Noncompliance was also disclosed related to note disclosures of pension plans and the presentation of the schedules of expenditures, and schedules of findings and questioned costs, for Federal awards and State financial assistance, respectively. (Finding No. 4)

### BACKGROUND

Section 11.45(7)(b) Florida Statutes, requires us to review, in consultation with the Florida Board of Accountancy, all local governmental entity audit reports prepared by independent certified public accountants and submitted pursuant to Section 218.39, Florida Statutes. In addition, pursuant to Section 215.97(11)(f), Florida Statutes, we are required to perform ongoing reviews of a sample of financial reporting packages submitted pursuant to Section 215.97, Florida Statutes (the *Florida Single Audit Act*).

Auditors of local governmental entities are required to report instances of noncompliance with applicable legal mandates and deficiencies in internal control. However, a desk review of audit reports (i.e., a review that does not include an examination of the auditor's working papers) cannot be used as the basis for determining the extent of the entity's compliance with applicable legal mandates prescribed in laws, administrative rules, charters, contractual requirements, or bond covenants. Nor would a desk review disclose whether the auditors reported all instances of noncompliance or reportable internal

control deficiencies noted during the audits, or whether certain required financial disclosures were completely omitted from the audit report. Our reviews were necessarily limited to only the contents of the audit reports submitted to us and did not extend to a determination of whether the auditors followed all government auditing standards in the actual conduct of their audit examinations.

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## FINDINGS AND RECOMMENDATIONS

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### Finding No. 1: Compliance with Audit Requirement

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Pursuant to Section 218.39(8), Florida Statutes, audit reports for the fiscal year ended September 30, 2005, were required to be submitted to us within 45 days after delivery of the audit report to the local governmental entity, but no later than September 30, 2006. As of April 24, 2007, 1,075 local governmental entities submitted 2004-05 fiscal year audit reports to us. Thirteen municipalities and 13 special districts required to provide for an audit for the 2004-05 fiscal year, and 22 special districts that may have been required to provide for an audit, had not submitted an audit report to us. It was not practical for us to determine for the 22 special districts whether an audit was required based on the financial criteria specified in Section 218.39(1), Florida Statutes, because sufficient financial information was not readily available, either from the entity, the Department of Financial Services' records (because the entities had not filed annual financial reports, contrary to Section 218.32(1), Florida Statutes), or other sources. For the prior fiscal year, 7 municipalities and 12 special districts required to provide for an audit, and 7 municipalities and 33 special districts that may have been required to provide for an audit, had not submitted an audit report to us as of May 30, 2006. Local governmental entities that fail to provide for audits may be subject to a penalty pursuant to Section 11.40(5), Florida Statutes.

Also, of the 1,075 local governmental entities that had filed audit reports as of April 24, 2007, 251 (23 percent) had not submitted the audit report timely,

including 170 that did not submit the audit report by September 30, 2006, and 81 that submitted the audit report by September 30, 2006, but did not submit it within 45 days after delivery of the audit report to the local governmental entity. As disclosed in our report No. 2006-190, a significant number of reports (28.4 percent) were also filed late for the fiscal year ended September 30, 2004. In addition, contrary to Section 10.558(3), Rules of the Auditor General, 33 (3 percent) of the 1,075 audit reports received by April 24, 2007, did not indicate in correspondence accompanying the audit report the date the audit report was delivered. Many of the instances in which audit reports were not submitted by September 30, 2006, were due to untimely completion of the audits. For 93 (55 percent) of the 170 audit reports for which the delivery date was indicated in correspondence accompanying the audit report, but which were not submitted by September 30, 2006, the audits were not completed and delivered to the local governmental entity until September 2006 or thereafter. This represents an improvement from the prior fiscal year (73 percent), which may have been higher due to GASB Statement No. 34 implementation or delays caused by hurricanes. Timely audits are necessary to ensure that management is promptly informed of control deficiencies and financial-related noncompliance. In addition, timely filing of audit reports is necessary to allow timely review by appropriate State oversight agencies.

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**Recommendation: Local governmental entities should ensure that audit reports are completed and submitted within the required time frame.**

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### Finding No. 2: Licensing of Auditors

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Section 218.39(1), Florida Statutes, requires that audits of local governmental entities be performed by independent certified public accountants. Section 473.322, Florida Statutes, requires individuals or firms that practice public accountancy within the State to hold active licenses issued by the Florida Board of Accountancy (Board). Based on information provided to us by Board staff, we determined that audits of one

county, eight municipalities and eight special districts were performed by nine different audit firms that did not hold active licenses or temporary permits issued by the Board as of the date of the auditors' reports on the financial statements. In the prior fiscal year, seven local governmental entity audits were performed by three auditors who did not hold active licenses or temporary permits. These audit firms were identified to the Board, and those that were previously licensed may be subjected to disciplinary actions as determined by the Board pursuant to Section 473.323, Florida Statutes, whereas those that were not previously licensed may be subjected to penalties prescribed in Section 455.228, Florida Statutes.

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**Recommendation: Local governmental entities, in contracting for audits, should ensure that auditors hold active licenses issued by the Florida Board of Accountancy.**

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**Finding No. 3: Completeness Reviews**

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Although this report covers the 1,075 audit reports received by us through April 24, 2007, the results of our completeness reviews includes all 2004-05 fiscal year audit reports received by us through February 14, 2007, (total of 1,056). The purpose of completeness reviews is to determine: (1) whether the audit reports included the required financial statements, note disclosures, reports, and other items listed in Chapter 10.550, Rules of the Auditor General; and (2) the extent to which they complied, for selected significant matters, with government auditing standards (GAS), generally accepted accounting principles (GAAP), and Chapter 10.550, Rules of the Auditor General. To assist auditors in complying with the requirements of GAS, GAAP, and applicable laws, rules, and regulations, we promulgate the Local Government Audit Report Review Comprehensive Review Guidelines. These guidelines are updated annually, and are available on the Auditor General's Web site.

Section 11.45(7)(b), Florida Statutes, requires us to request from local governmental entities significant items omitted from audit reports. Accordingly, for

those audit reports that did not include required items, such as financial statements, required supplementary information, auditor's reports/management letter, and auditee's response thereto, the local governmental entity was requested by letter to provide the missing items. A copy of the letter was concurrently provided to the local governmental entity's auditor.

For the 2004-05 fiscal year, 93 local governmental entities were sent letters requesting items omitted from the audit report. Most of the items requested related to information required to be included in the audit report, such as: (1) a written statement of explanation or rebuttal concerning the auditor's comments included in the auditor's report on compliance and internal control or management letter, and (2) management's discussion and analysis (MD&A). Of the 93 local governmental entities sent letters requesting items omitted from the audit report, 25 (27 percent) that were required to respond by March 31, 2007, had not provided the requested items as of April 24, 2007 (the results of our completeness reviews as described on Appendix A of this report were adjusted for items provided). Pursuant to Section 11.45(7)(b), Florida Statutes, we notified the Legislative Auditing Committee of those entities that did not provide requested items.

Most of the audit reports submitted included audited financial statements, and notes thereto, and the required auditor's reports on the financial statements and on compliance and internal control. Additionally, most reports reviewed were generally presented in accordance with GAS, GAAP, and Chapter 10.550, Rules of the Auditor General. The majority of the exceptions disclosed by our completeness reviews relate to: (1) the presentation of auditor's reports in accordance with GAS and Chapter 10.550, Rules of the Auditor General; and (2) the preparation of financial statement note disclosures in accordance with GAAP. For example, for 41.2 percent of the audit reports for which a departure was noted from the auditor's standard report on the financial statements, the departure was not, contrary to Section 4.26a, American Institute of Certified Public Accountants'

Audit Guide: Government Auditing Standards and Circular A-133 Audits, described in the auditor's report on compliance and internal control. Also, 25.9 percent of the audit reports that had restricted net assets did not, contrary to Section 2300.106a, Codification of Governmental Accounting and Financial Reporting Standards, disclose in the notes the policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for which both restricted and unrestricted assets are available. Additionally, 19.7 percent of the audit reports for which material budget overexpenditures were reported on the financial statements, or on budget schedules included as required supplementary information, did not, contrary to Section 2300.106h, Codification of Governmental Accounting and Financial Reporting Standards, disclose in the notes to the financial statements whether the overexpenditures were contrary to law (i.e., the notes did not state the legal level of budgetary control).

Summaries of the deficiencies disclosed by our completeness reviews, with comparative prior year information, and an analysis of the deficiencies disclosed by our completeness reviews by type of local governmental entity, are shown on Appendix A.

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**Recommendation: Based on the results of our 2004-05 fiscal year completeness reviews, and as similarly noted in our reports regarding our completeness reviews for prior fiscal years, local governmental entities should ensure that auditor's reports are presented in accordance with government auditing standards and Chapter 10.550, Rules of the Auditor General. In addition, local governmental entities should ensure that the notes to the financial statements include at least the minimum note disclosures required by generally accepted accounting principles.**

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#### **Finding No. 4: Comprehensive Reviews**

In addition to the completeness reviews, we made more comprehensive reviews of randomly selected samples of audit reports filed as of February 14, 2007, for the fiscal year ended September 30, 2005, as follows:

- We reviewed a sample of 60 audit reports to determine the extent of compliance, on a more comprehensive basis, with GAS, GAAP, and Chapter 10.550, Rules of the Auditor General, as they apply to financial statements and notes thereto. The majority of deficiencies disclosed by our comprehensive reviews pertained to financial statement presentation and note disclosures.
- Because of numerous note disclosure requirements for pension plans, we reviewed a sample of 60 audit reports with pension plan note disclosures to determine the extent of compliance with GAAP with respect to pension plan disclosures (GASB Statement Nos. 25 and 27). Our comprehensive reviews also disclosed a significant number of deficiencies related to pension plan disclosures. For example, for defined benefit pension plans, the authority under which the plan (1) benefit provisions and (2) employer obligations to contribute were established or may be amended were not disclosed in 27.8 and 24.1 percent, respectively, of the reports reviewed. Additionally, for defined benefit plans using the aggregate actuarial cost method, the fact that this method does not identify or separately amortize unfunded actuarial liabilities was not disclosed in 46.2 percent of the reports reviewed.
- Section 10.556(6), Rules of the Auditor General, requires that the scope of the audit, when applicable, encompass the additional activities necessary to establish compliance with the Federal *Single Audit Act Amendments of 1996*, Public Law 104-156 (31 U.S.C.A. ss. 7501 to 7507); United States Office of Management and Budget (OMB) *Circular No. A-133*; other applicable Federal law; and the *Florida Single Audit Act* (i.e., Section 215.97, Florida Statutes). We reviewed a sample of 60 audit reports to determine the extent of compliance with the reporting requirements contained in OMB *Circular No. A-133*. We also reviewed a sample of 60 audit reports to determine the extent of compliance with the

reporting requirements contained in the *Florida Single Audit Act*. Our comprehensive review disclosed a significant number of deficiencies related to the presentation of the schedules of expenditures, and schedules of findings and questioned costs, for Federal awards and State financial assistance, respectively. For example, the total amount expended for each Federal program and State project was not provided on 38.3 and 28.3 percent of the schedules of expenditures of Federal awards and schedules of expenditures of State financial assistance, respectively. There was some improvement over the prior year, but there is still a continuing need for improvement. In addition, the dollar threshold identified in the schedules of findings and questioned costs to distinguish Type A and Type B State projects was calculated incorrectly for 8.6 percent of the reports reviewed. This is a substantial improvement over the 19.3 percent error rate in the prior year. Also, notes describing the significant accounting policies used in preparing the schedule of expenditures of Federal Awards were missing from 13.3 percent of the Federal Awards programs reviewed. The same error rate was noted in the prior year.

Summaries of the deficiencies disclosed by our comprehensive reviews, and an analysis of the deficiencies disclosed by our comprehensive reviews by type of local governmental entity, are shown on Appendix B. Because of the limited number of sample items applicable to each type of local governmental entity, we did not attempt to present comparative prior year information.

**Recommendation:** Based on the results of our 2004-05 fiscal year comprehensive reviews, and as similarly noted in our reports regarding our comprehensive reviews for prior fiscal years, local governmental entities should ensure the: (1) presentation of financial statements and note disclosures in accordance with generally accepted accounting principles and government auditing standards, and (2) presentation of the schedules of expenditures, and schedules of findings and questioned costs, for Federal awards and State financial assistance, respectively, in accordance with Federal and State guidelines.

#### SCOPE AND OBJECTIVES

This review covers the 1,075 reports received by us through April 24, 2007. The objectives of this review, subject to the limitations described above, were to determine whether the audit reports: (1) appeared to comply with government auditing standards, generally accepted accounting principles, and Chapter 10.550, Rules of the Auditor General; and (2) were prepared by independent certified public accountants properly licensed by the Florida Board of Accountancy.

#### 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.

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**AUTHORITY**

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Pursuant to the provisions of Section 11.45(7)(b), Florida Statutes, I have directed that this report be prepared to present the results of our review of local governmental entity audit reports prepared by independent certified public accountants for the fiscal year ended September 30, 2005.



William O. Monroe, CPA  
Auditor General

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This review was conducted by Anita Marlowe, 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](mailto: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 <http://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**  
**COMPLETENESS REVIEWS**  
**SUMMARY OF DEFICIENCIES BY TYPE OF LOCAL GOVERNMENT ENTITY**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

Description of Deficiencies	Number of reports to which criteria applied	<u>Counties</u>		<u>Municipalities</u>		<u>Special District</u>		<u>Total Current Year</u>		<u>Prior Year</u>
		Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	Percent (2)
<b><u>Presentation of Auditor's Report or Management Letter</u></b>										
Description of a departure from standard auditor's report on the financial statements not included in report on compliance and internal control.	17	1	100.0	3	30.0	3	50.0	7	41.2	38.9
Statement that matters such as immaterial noncompliance, or control deficiencies not considered significant enough to be reportable conditions, were communicated to management in a separate letter not included in report on compliance and internal control.	448	4	8.7	33	13.5	37	23.6	74	16.5	14.9
<b><u>Notes to the Financial Statements</u></b>										
Policy for defining operating and nonoperating revenues of proprietary funds not disclosed.	492	4	7.7	17	5.3	19	16.1	40	8.1	10.6
Policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for which both restricted and unrestricted assets are available not disclosed.	845	10	15.6	98	28.3	111	25.5	219	25.9	27.8
The basis of accounting applied to each budget is not presented.	960	3	4.6	15	3.9	36	7.0	54	5.6	4.2
Whether budget overexpenditures were contrary to law not disclosed.	269	1	7.1	22	13.4	30	33.0	53	19.7	35.6
Methods for handling risk of loss not disclosed.	1,056	2	3.1	26	6.8	121	19.9	149	14.1	15.7

Notes: (1) Number of reports for which the deficiency was noted.  
 (2) Percentage of reports for which the deficiency was noted. The percentage is based on the number of reports to which the criterion was applied.

**APPENDIX B  
COMPREHENSIVE REVIEWS  
FINANCIAL STATEMENT PRESENTATION AND DISCLOSURES  
AND FEDERAL AWARDS/STATE FINANCIAL ASSISTANCE REPORTING REQUIREMENTS  
SUMMARY OF DEFICIENCIES BY TYPE OF LOCAL GOVERNMENT ENTITY  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

Description of Deficiencies	Number of reports to which criteria applied	Counties		Municipalities		Special Districts		Total		
		Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	
<b><u>Auditor's Report on the Financial Statements</u></b>										
The auditor's report on the financial statements does not include a statement that the audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.	60	1	25.0	1	4.4	1	3.0	3	5.0	
<b><u>Financial Statements</u></b>										
The financial statements are not mathematically correct.	60	1	25.0	5	21.7	0	0.0	6	10.0	
The statement of activities is not reported in the manner prescribed by GASB 34.	50	0	0.0	1	4.4	2	8.7	3	6.0	
The fund financial statements were not prepared in accordance with appropriate fund classifications.	57	0	0.0	1	4.4	2	6.7	3	5.3	
<b><u>Notes to the Financial Statements</u></b>										
Totals on supporting schedules in the notes not in agreement with corresponding account totals on the financial statements.	60	1	25.0	3	13.0	1	3.0	5	8.3	
Description of government-wide financial statements, noting that neither fiduciary funds nor components units that are fiduciary in nature are included not disclosed.	35	0	0.0	1	5.6	2	15.4	3	8.6	
Measurement focus and basis of accounting used in the government-wide financial statements not disclosed.	49	1	25.0	1	4.4	1	4.6	3	6.1	
Policy for eliminating internal activity on the statement of activities not disclosed.	36	0	0.0	1	5.0	2	16.7	3	8.3	
Description of the types of transactions included in program revenues not included.	45	0	0.0	3	13.0	1	5.6	4	8.9	
Policy for capitalizing assets not disclosed.	55	0	0.0	1	4.6	7	24.1	8	14.6	

**APPENDIX B (CONTINUED)**  
**COMPREHENSIVE REVIEWS**  
**FINANCIAL STATEMENT PRESENTATION AND DISCLOSURES**  
**AND FEDERAL AWARDS/STATE FINANCIAL ASSISTANCE REPORTING REQUIREMENTS**  
**SUMMARY OF DEFICIENCIES BY TYPE OF LOCAL GOVERNMENT ENTITY**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

Description of Deficiencies	Number of reports to which criteria applied	<u>Counties</u>		<u>Municipalities</u>		<u>Special Districts</u>		<u>Total</u>		
		Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	
<b><u>Pension Plan Financial Statement Disclosures</u></b>										
Notes did not include brief description of types of benefits provided.	54	1	14.3	3	9.1	3	21.4	7	13.0	
Authority under which the defined benefit plan's benefit provisions were established or may be amended not disclosed.	54	2	28.6	10	30.3	3	21.4	15	27.8	
For defined benefit plans issuing a stand alone financial report, disclosure not made as to how the report could be obtained.	54	0	0.0	4	12.1	1	7.1	5	9.3	
Authority under which the defined benefit plan employer obligations to contribute were established or may be amended not disclosed.	54	2	28.6	8	24.2	3	21.4	13	24.1	
Required contributions in dollars, or as a percentage of the covered payroll, not disclosed for the current year and each of the two preceding years for the cost-sharing defined benefit plan.	43	1	14.3	4	18.2	4	28.6	9	20.9	
Actuarial assumption with respect to the inflation rate not disclosed for the defined benefit plan.	21	0	0.0	5	25.0	0	0.0	5	23.8	
Notes did not disclose postretirement benefit increases.	21	0	0.0	6	30.0	0	0.0	6	28.6	
The fact that the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities not disclosed for the defined benefit plan.	13	0	0.0	6	46.2	0	0.0	6	46.2	
Schedule of employer contributions for the past six years not presented for the defined benefit pension trust fund.	12	0	0.0	3	27.3	0	0.0	3	25.0	

**APPENDIX B (CONTINUED)**  
**COMPREHENSIVE REVIEWS**  
**FINANCIAL STATEMENT PRESENTATION AND DISCLOSURES**  
**AND FEDERAL AWARDS/STATE FINANCIAL ASSISTANCE REPORTING REQUIREMENTS**  
**SUMMARY OF DEFICIENCIES BY TYPE OF LOCAL GOVERNMENT ENTITY**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

Description of Deficiencies	Number of reports to which criteria applied	<u>Counties</u>		<u>Municipalities</u>		<u>Special Districts</u>		<u>Total</u>		
		Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	
<b><u>Federal Awards Reporting</u></b>										
Total amount expended for each Federal program on schedule of expenditures of Federal awards not provided.	60	4	30.8	15	39.5	4	44.4	23	38.3	
Notes describing the significant accounting policies used in preparing schedule of expenditures of Federal awards not included.	60	0	0	7	18.4	1	11.1	8	13.3	
Statement that the audit was performed for the purpose of forming an opinion on the basic financial statements not included in auditor's report on the schedule of expenditures of Federal awards.	59	1	7.7	2	5.4	0	0	3	5.1	
<b><u>State Financial Assistance Reporting</u></b>										
Total amount expended for each State project not provided on schedule of expenditures of State financial assistance.	60	10	47.6	6	22.2	1	8.3	17	28.3	
Statement as to whether the audit disclosed any findings required to be reported pursuant to Section 10.557, Rules of the Auditor General, not included in schedule of findings and questioned costs.	60	2	9.5	2	7.4	1	8.3	5	8.3	
Major State projects tested did not provide audit coverage of at least fifty percent of the auditee's total expenditures of State financial assistance.	59	3	14.3	0	0.0	0	0.0	3	5.1	
Dollar threshold identified in schedule of findings and questioned costs to distinguish Type A and Type B State projects not calculated accurately.	58	0	0.0	2	8.0	3	25.0	5	8.6	

Notes: (1) Number of reports for which the deficiency was noted.  
 (2) Percentage of reports for which the deficiency was noted. The percentage is based on the number of reports to which the criterion was applied.