



AUDITOR GENERAL

DAVID W. MARTIN, CPA



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

For the Fiscal Year Ended September 30, 2006

SUMMARY

We are required to review all local governmental entity audit reports submitted pursuant to Section 218.39, Florida Statutes. For the 2005-06 fiscal year audit reports we reviewed, we determined that they were generally presented in accordance with generally accepted 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 March 28, 2008, 20 municipalities and 14 special districts required to provide for an audit had not submitted an audit report to us. Also, 2 municipalities and 46 special districts that may have been required to provide for an audit did not submit an audit report. Additionally, 205 local governmental entities did not submit the audit report timely. (Finding No. 1)
- Audits of seven local governmental entities were performed by five 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 generally accepted accounting principles and Chapter 10.550, Rules of the Auditor General. 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 generally accepted government auditing standards in the actual conduct of their audit examinations.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Timely Submission of Audit Reports

Section 218.39(8), Florida Statutes, requires that the local government entity submit the audit report and their officer’s written response to us within 45 days after delivery of the audit report to the entity’s governing body, but no later than 12 months after the end of the fiscal year, which for the 2005-06 fiscal year is September 30, 2007. To assist in monitoring compliance with this requirement, Section 10.558(3), Rules of the Auditor General, requires the local government entity, when submitting the audit report to us, to indicate in the correspondence accompanying the audit report the date that the audit report was delivered to the local governmental entity.

As of March 28, 2008, 1,136 local governmental entities submitted a 2005-06 fiscal year audit report to us. Table 1 shows compliance with the timely submission requirements, compared to the prior year:

Table 1 Compliance with Timely Submission Requirements		
Type of Exception	Fiscal Year	
	2006	2005
Audit required, but not submitted.	34	26
Audit may have been required, but not submitted.	48	22
Audit report submitted after 45-day deadline.	105	81
Audit report submitted after September 30 th deadline.	100	170
Correspondence from entity did not indicate when audit report was delivered to the entity.	47	33

Further, for the 2005-06 fiscal year information provided in Table 1, we noted the following:

- The 34 local governmental entities which had not submitted an audit to us consisted of 20 municipalities and 14 school districts.
- For the 48 local governmental entities required to provide for an audit, but which had not submitted an audit report to us, it was not practicable for us to determine for the 2 municipalities and 46 special districts whether an audit was required based on the financial criteria specified in Section 218.39(1), Florida Statutes, because sufficient 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 law), or other sources.
- For the 105 audit reports submitted after the 45-day deadline, these audit reports were submitted to us, on average, 86 days after delivery of the audit report to the local governmental entity.
- For the 100 reports submitted after the September 30, 2007, deadline, 78 were submitted to us more than one month late and approximately 33 percent of the audit reports were not submitted due to untimely completion of the audits.

Local governmental entities that fail to provide for audits may be subject to a penalty pursuant to Section 11.40(5), Florida Statutes. Also, timely audits are necessary to ensure that management is promptly informed of control deficiencies and financial-related noncompliance. Additionally, timely filing of audit reports is necessary to allow timely review by appropriate State oversight agencies.

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

Finding No. 2: Licensing of Auditors

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 three municipalities and four special districts were performed by five 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, including one out-of-state auditor. For comparison purposes, in the prior fiscal year, 17 local governmental entity audits were performed by nine 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.

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

Finding No. 3: Completeness Reviews

Although this report covers the 1,136 audit reports received by us through March 28, 2008, the results of our completeness reviews includes all 2005-06 fiscal year audit reports received by us through January 11, 2008 (total of 1,102). 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 generally accepted government auditing standards (GAGAS), generally accepted accounting principles (GAAP), and Chapter 10.550, Rules of the Auditor General. To assist auditors in complying with the requirements of GAGAS, 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 2005-06 fiscal year, 111 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 111 local governmental entities sent letters requesting items omitted from the audit report, 35

(31.5 percent) that were required to respond by February 22, 2008, had not provided the requested items as of March 28, 2008 (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 GAGAS, 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 GAGAS and Chapter 10.550, Rules of the Auditor General; and (2) the preparation of financial statement note disclosures in accordance with GAAP. For example, contrary to Section 2300.106h, Codification of Governmental Accounting and Financial Reporting Standards, 29.4 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 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). Additionally, contrary to Section I50.133, Codification of Government Accounting and Financial Reporting Standards, 25 percent of the audit reports which disclosed investments exposed to foreign currency risk did not provide the U.S. dollar balances organized by currency denomination, and investment type.

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.

Recommendation: Based on the results of our 2005-06 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 generally accepted 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.

Finding No. 4: Comprehensive Reviews

In addition to the completeness reviews, we made more comprehensive reviews of randomly selected audit reports for the fiscal year ended September 30, 2006, as follows:

- We reviewed a sample of 60 audit reports to determine the extent of compliance, on a more comprehensive basis, with GAGAS, 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 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 disclosed a significant number of deficiencies related to pension plan disclosures. For example, for defined benefit pension plans, the authority under which the plan benefit provisions were established or may be amended, and the authority under which the plan benefit employer obligations to contribute were established or may be amended, were not disclosed in 14.8 and 16.7 percent, respectively, of the reports reviewed. Also, for defined benefit plans, the required contribution in dollars, or as a

percentage of payroll, was not disclosed for the two prior years in 18.4 percent of the reports reviewed. Additionally, 66 percent of the reports reviewed with defined contribution pension plans did not identify the plan as a defined contribution plan. All entities with this reporting deficiency were members of the Florida Retirement System.

- 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 for Federal awards and State financial assistance. For example, total amounts expended for each Federal program and State project was not provided on 38.3 and 36.7 percent of the schedules of expenditures of Federal awards and schedules of expenditures of State financial assistance, respectively. 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 28.8 percent of the reports reviewed. This is substantially more than the 8.6 percent error rate noted in the prior year. Also, notes describing the significant accounting policies used in preparing the schedule of expenditures of State assistance were missing from 13.3 percent of

the reports 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 2005-06 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 note disclosures in accordance with generally accepted accounting principles, 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 1,136 reports received by us through March 28, 2008. 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.

AUTHORITY

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, 2006.



David W. Martin, CPA
Auditor General

This review was conducted by Richard Voss, CPA, and supervised by Michael J. Gomez, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, via e-mail at marilynrosetti@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.myflorida.com/audgen>; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

APPENDIX A
COMPLETENESS REVIEWS
SUMMARY OF DEFICIENCIES BY TYPE OF LOCAL GOVERNMENT ENTITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Description of Deficiencies	Number of reports to which criteria applied	Counties		Municipalities		Special District		Total Current Year		Prior Year
		Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (2)	Number (1)	Percent (3)	Percent (3)
<u>Presentation of Auditor's Report or Management Letter</u>										
Description of a departure from standard auditor's report on the financial statements not included in report on compliance and internal control.	16	2	50.0	4	50.0	2	50.0	8	50.0	41.2
Management's written explanation of, or rebuttal to any instances of noncompliance, indications of fraud, abuse, illegal acts, or reportable conditions described in the auditor's report on compliance and internal control not included.	128	2	8.7	1	1.4	6	19.4	9	7.0	4.0
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.	442	3	5.8	28	11.5	23	15.8	54	12.2	16.5
<u>Notes to the Financial Statements</u>										
Policy for defining operating and nonoperating revenues of proprietary funds not disclosed.	478	1	1.9	15	4.8	18	15.6	34	7.1	8.1
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.	847	6	9.2	75	21.9	85	19.3	166	19.6	25.9
U.S. dollar balances for investments exposed to foreign currency risk organized by currency denomination, or investment type not disclosed.	20	0	0.0	4	26.7	1	33.3	5	25.0	0.0
Whether budget overexpenditures were contrary to law not disclosed.	170	1	6.7	26	26.8	23	39.7	50	29.4	19.7
Methods for handling risk of loss not disclosed.	1,102	2	3.1	22	5.8	101	15.3	125	11.3	14.1

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 for the respective type of local government entity to which the criterion was applied.

(3) Percentage of reports for which the deficiency was noted. The percentage is based on the total number of reports for all types of government entities 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, 2006**

Description of Deficiencies	Number of reports to which criteria applied	<u>Counties</u>		<u>Municipalities</u>		<u>Special Districts</u>		<u>Total</u>	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
		(1)	(2)	(1)	(2)	(1)	(2)	(1)	(3)
<u>Notes to the Financial Statements</u>									
Description of the types of transactions included in program revenues not included.	45	0	0.0	0	0.0	3	14.3	3	6.7
Policy for capitalizing assets not disclosed.	54	0	0.0	0	0.0	5	16.7	5	9.3
<u>Pension Plan Financial Statement Disclosures</u>									
Notes on defined benefit plan did not disclose the name of each plan, name the public employee retirement system or administrator of the plan, or identify the plan as to single-employer, agent multiple-employer, or cost sharing multiple-employer.	54	0	0.0	2	7.1	1	5.3	3	5.6
Notes on defined benefit plan did not include brief description of types of benefits provided.	54	0	0.0	1	3.6	3	15.8	4	7.4
Authority under which the defined benefit plan's benefit provisions were established or may be amended not disclosed.	54	2	28.6	2	7.1	4	21.1	8	14.8
For defined benefit plans issuing a stand alone financial report, disclosure not made as to how the report could be obtained.	54	1	14.3	1	3.6	2	10.5	4	7.4
Authority under which the defined benefit plan employer obligations to contribute were established or may be amended not disclosed.	54	3	42.9	2	7.1	4	21.1	9	16.7
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.	38	0	0.0	2	13.3	5	31.3	7	18.4
Actuarial assumption with respect to the inflation rate not disclosed for the defined benefit plan.	24	0	0.0	3	14.3	1	33.3	4	16.7
Notes did not disclose postretirement benefit increases.	24	0	0.0	2	9.5	1	33.3	3	12.5
Notes did not identify the pension plan as a defined contribution plan	50	6	85.7	14	56.0	13	72.2	33	66.0

APPENDIX B (CONTINUED)
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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 (3)	
<u>Pension Plan Financial Statement Disclosures (Continued)</u>										
Notes on defined contribution plan did not include brief description of the plan provisions and the authority under which they are established or amended.	50	2	28.6	2	8.0	3	16.7	7	14.0	
For defined contribution plans, contribution requirements for each plan member, employer, or other entity not disclosed.	50	0	0.0	2	8.0	1	5.6	3	6.0	
For defined contribution plans, actual contributions made by plan members and the employer not disclosed.	50	0	0.0	3	12.0	0	0.0	3	6.0	
<u>Federal Awards Reporting</u>										
Total amount expended for each Federal program not provided on schedule of expenditures of Federal awards.	60	7	53.8	15	41.7	1	9.1	23	38.3	
Notes describing the significant accounting policies used in preparing schedule of expenditures of Federal awards not included.	60	2	15.4	3	8.3	1	9.1	6	10.0	
Corrective action plan does not include name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date of each finding.	4	3	100.0	1	100.0	0	0	4	100.0	
<u>State Financial Assistance Reporting</u>										
Total amount expended for each State project not provided on schedule of expenditures of State financial assistance.	60	9	47.4	11	37.9	2	16.7	22	36.7	
CSFA number, or other identifying number for State projects, not provided on the schedule of expenditures of State financial assistance.	60	1	5.3	2	6.9	0	0.0	3	5.0	

APPENDIX B (CONTINUED)
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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Description of Deficiencies	Number of reports to which criteria applied	<u>Counties</u>		<u>Municipalities</u>		<u>Special Districts</u>		<u>Total</u>		
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	
		(1)	(2)	(1)	(2)	(1)	(2)	(1)	(3)	
<u>State Financial Assistance Reporting (Continued)</u>										
Notes describing the significant accounting policies used in preparing the schedule of expenditures of State financial assistance not included.	60	4	21.1	3	10.3	1	8.3	8	13.3	
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	10.5	5	17.2	3	25.0	10	16.7	
Dollar threshold identified in schedule of findings and questioned costs to distinguish Type A and Type B State projects not calculated accurately.	59	4	21.1	11	37.9	2	18.2	17	28.8	
Audit findings related to State projects did not include CSFA number, name of the State awarding agency, and name of any pass-through entity.	9	1	25.0	2	66.7	1	50.0	4	44.4	

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 for the respective type of local government entity to which the criterion was applied.
 (3) Percentage of reports for which the deficiency was noted. The percentage is based on the total number of reports for all types of government entities to which the criterion was applied

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