



# AUDITOR GENERAL

DAVID W. MARTIN, 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, 2006

### 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, 384 municipality, and 686 special district audit reports prepared by independent certified public accountants, and 2 municipality and 57 special district annual financial reports for the fiscal year ended September 30, 2006, as of March 28, 2008.

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 activities. However, overall the financial condition of local governmental entities appears to have remained stable for the 2001-02 through 2005-06 fiscal years.

Although the number of significant findings included in local governmental entity audit

reports has decreased significantly since the 2001-02 fiscal year, the total percentage of insufficiently detailed findings and repeated prior fiscal year findings remains high.

Our review of local governmental entity audit reports and annual financial reports for the fiscal year ended September 30, 2006, disclosed the following:

- Forty-eight of 1,136 (4 percent) local governmental entities were reported as meeting one or more of the financial emergency conditions defined in Section 218.503(1), Florida Statutes, a decrease of 33 percent from the prior fiscal year.
- Thirty-one of 1,136 (3 percent) local governmental entities were reported as experiencing deteriorating financial conditions, comparable to the prior fiscal year.
- While average millage rates for counties and municipalities have not changed significantly in the past four years, taxable property values and taxes levied have increased 86 percent and 70 percent, respectively, from the 2001-02 to the 2005-06 fiscal year.
- The number of findings included in audit reports increased slightly since the prior fiscal year, but has decreased 12 percent since the 2001-02 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 2005-06 fiscal year were findings that had also been included in audit reports for the prior fiscal year.**

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### BACKGROUND

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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.

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### FINDINGS

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#### **Finding No. 1: Significant Financial Trends**

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##### ***Financial Emergency Conditions***

Section 218.503(1), Florida Statutes, requires that local governments be subject to review and oversight by the Governor if one or more specified conditions occur. These conditions include failure to pay short-term loans or make bond debt service payments when due as a result of a lack of funds, failure to pay wages and salaries to employees due to a lack of funds, and an unreserved or total fund balance or unrestricted or total net assets deficit for which sufficient resources are not available to cover the deficit. Section 11.45(7)(e), Florida Statutes, requires us to notify the Legislative Auditing Committee and the Governor of

any audit report reviewed that contains a statement that the local government met one or more of the specified conditions.

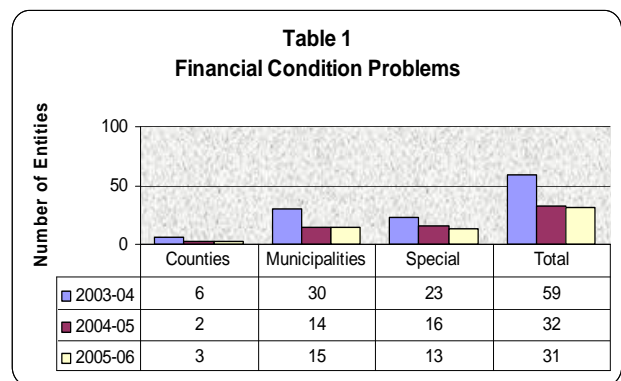
Our review of the 1,136 local governmental entity 2005-06 fiscal year audit reports prepared by independent certified public accountants and received by us as of March 28, 2008, disclosed that a total of 48 entities (2 counties, 6 municipalities and 40 special districts) were reported as meeting one or more of the financial emergency conditions as defined by Section 218.503(1), Florida Statutes. In addition, our review of the 59 annual financial reports for unaudited entities disclosed that 2 special districts met a condition defined in Section 218.503(1)(e), Florida Statutes. This represents a 33 percent overall decrease, in entities meeting one or more financial emergency conditions, from the 2004-05 fiscal year.<sup>1</sup> Of the entities reported as meeting one of the financial emergency conditions as of September 30, 2006, 19 (2 counties, 2 municipalities, and 15 special districts) were also previously reported as meeting one or more financial emergency conditions as of September 30, 2005.

As required by Section 10.554(1)(h)6.c.2., Rules of the Auditor General (2006), if the auditor reported that the 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 8 of the 48 entities reported as meeting one or more of the financial emergency conditions as of September 30, 2006, the auditors indicated that the condition resulted from deteriorating financial conditions.

**Financial Condition Problems**

Section 218.39(5), Florida Statutes, requires auditors to notify local government officials or their designees when deteriorating financial conditions exist that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Section 10.556(7), Rules of the Auditor General (2006), requires auditors to use financial condition assessment procedures, and Section 10.554(1)(h)6.c., Rules of the Auditor General (2006), requires auditors to report any deteriorating financial conditions noted as a result of the financial condition assessment. For example, a local government may have been experiencing operating losses for several years resulting in significantly depleted unrestricted net assets which, if not corrected through an increase in rates charged to customers or a reduction in expenses, would result in deficit unrestricted net assets, a financial emergency condition.

Auditors reported a total of 31 entities (3 counties, 15 municipalities, and 13 special districts) as experiencing financial condition problems as of September 30, 2006, which represents a slight decrease in comparison with the 2004-05 fiscal year, as shown in Table 1.<sup>2</sup>



<sup>1</sup> 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 2004-05 fiscal year differs from the number reported in report No. 2007-179 because additional reports for that fiscal year were received subsequent to the release of report No. 2007-179.

<sup>2</sup> The number of entities reported as experiencing financial condition problems for the 2004-05 fiscal year differs from the number reported in report No. 2007-179 because additional reports for that fiscal year were received subsequent to the release of report No. 2007-179.

**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 2001-02 through 2005-06 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 local governmental entities and their independent auditors and require information that can only be obtained through examination of entity records and inquiry of entity management.

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 2005-06 fiscal year, the average ad valorem millage rate was 6.9451 for counties and 4.2689 for municipalities. The average millage rate has decreased slightly for counties and municipalities since the 2001-02 fiscal year.

As noted in prior fiscal years, we found that, on average, lesser-populated counties and higher-populated municipalities had higher 2006 millage rates than higher-populated counties and lower-populated municipalities, as shown in Table 2.

Table 2			
Counties		Municipalities	
Population Range	Average 2006 Millage	Population Range	Average 2006 Millage
< 25,000	8.9371	< 1,000	2.8532
25,000 – 74,999	7.8320	1,000 – 2,999	4.3443
75,000 – 224,999	5.5859	3,000 – 9,999	4.4180
225,000 – 674,999	5.9964	10,000 – 24,999	4.4216
675,000 +	5.4487	25,000 – 99,999	4.8596
		100,000 +	5.7347

We also noted, for the 2005-06 fiscal year, that 11 counties and 3 municipalities established millage rates at or near the statutory maximum of 10 mills (9.5 mills or greater), as compared to 15 counties and 3 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 significantly from the 2001-02 to the 2005-06 fiscal year for both entity types. Fifty-seven counties and 297 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 70 percent from the 2001-02 to the 2005-06 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 Tables 3 and 4.

<b>Table 3</b>			
<b>Counties</b>			
<b>Year</b>	<b>Average Millage</b>	<b>Taxable Property Values</b>	<b>Taxes Levied</b>
2002	7.5942	\$882,238,222,735	\$5,376,679,580
2003	7.5650	\$981,794,280,611	\$5,957,111,802
2004	7.4974	\$1,105,948,754,799	\$6,570,744,816
2005	7.3751	\$1,309,754,176,278	\$7,586,284,807
2006	6.9451	\$1,642,708,811,445	\$8,928,231,811

<b>Table 4</b>			
<b>Municipalities</b>			
<b>Year</b>	<b>Average Millage</b>	<b>Taxable Property Values</b>	<b>Taxes Levied</b>
2002	4.4184	\$453,402,682,823	\$2,207,838,534
2003	4.3834	\$501,884,576,162	\$2,438,905,213
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,319,146,683	\$3,272,616,315
2006	4.2689	\$843,945,636,166	\$3,927,330,291

For counties, taxable property values increased 86 percent, while average millage rates declined 8.5 percent, resulting in an increase in taxes levied of 66 percent. For municipalities, taxable property values increased 86 percent, while average millage rates decreased 3 percent, resulting in an increase in taxes levied of 78 percent.

### ***Fund Equity and Results of Operations***

Many special districts reported no unreserved or unreserved fund equities (i.e., fund balances or net assets), or deficit unreserved/unrestricted fund equities. In addition, two counties and seven municipalities reported deficit unreserved/unrestricted fund equities as of September 30, 2006. 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, 2006. Such entities may not have sufficient funds to sustain current services without having to borrow funds from outside sources, and expenditures for hurricane damages, for example, 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. Table 5 shows comparative results of our analysis for the 2003-04 through 2005-06 fiscal years.

As shown on the fourth row, last column, in Table 5, 556 (47 percent) of the 1,195 local governmental entity 2005-06 fiscal year audit reports and annual financial reports submitted to us as of March 28, 2008, 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 32, 37, and 53 percent of the counties, municipalities, and special districts reports, respectively. As shown on the first row in Table 5, reported deficits in total unreserved/unrestricted fund equity have slightly decreased for counties, increased for municipalities, and decreased for special districts, when compared to the prior fiscal year. Ad valorem taxes levied have increased by \$3,551,552,231 for counties and \$1,719,491,757 for municipalities (up 66 and 78 percent, respectively), since the 2001-02 fiscal year; however, as shown on the third row in Table 5, many local governments are still experiencing excess

Table 5												
Condition	Counties Fiscal Year			Municipalities Fiscal Year			Special Districts Fiscal Year			Totals Fiscal Year		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
Reported deficit total unreserved/unrestricted fund equity.	0	3	2	4	4	7	46	62	39	50	69	48
Reported no unreserved/unrestricted fund equity.	0	0	0	0	0	1	63	54	71	63	54	72
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	53	31	35	293	228	229	323	422	402	669	681	666
Experienced net losses when both governmental and proprietary funds were taken into account.	42	17	21	195	145	142	317	385	393	554	547	556
Experienced net losses and reported net deficit unreserved/unrestricted fund equity.	0	0	0	3	2	4	30	57	66	33	59	70

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.myflorida.com/audgen/> (click on Local Govt/Nonprofit, Local Governmental Entity Financial Condition Assessment Procedures, INSTRUCTIONS-EXCEL).

Regarding unaudited entities, Table 5 includes 26 special districts that reported no unreserved/unrestricted fund equity and 2 special districts that reported deficit unreserved/unrestricted fund equity on their 2005-06 fiscal year annual financial reports. Eighteen 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 98 audited entities (3 counties, 17 municipalities and 78 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2006, as

compared to 88 as of September 30, 2002. Of these, 43 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 55 for the 2001-02 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, 2006. Declining levels of cash and investments as compared to current liabilities may indicate that the local government has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

As shown in Table 6, long-term debt reported for governmental activities increased by a total of \$8.9 billion, or 51 percent, from the 2001-02 to the 2005-06 fiscal year for entities from which we received audit reports for both fiscal years.

Table 6				
Long-Term Debt – Governmental Activities (in billions)				
	Fiscal Year		Amount of Increase	Percentage Increase
	2002	2006		
Counties	\$ 7.9	\$ 10.6	\$ 2.7	34
Municipalities	6.7	9.0	2.3	34
Special Districts	3.0	6.9	3.9	130
Total	\$17.6	\$26.5	\$8.9	51

If long-term debt exceeds a local government’s resources for paying the debt, the local government may have difficulty obtaining additional capital funds, may have to pay a higher interest rate for them, and may have difficulty repaying the debt.

**Finding No. 2: Significant Findings**

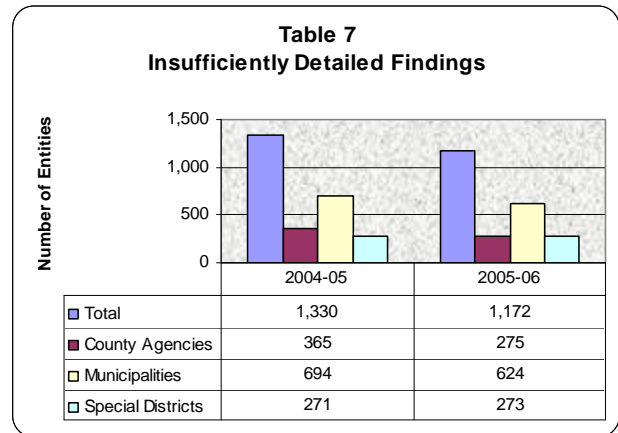
**Material Audit Findings**

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 17 (1 percent) of the 1,458 (including 388 county agency, 384 municipality, and 686 special district) audit reports reviewed for the 2005-06 fiscal year contained modified opinions (4 county agencies, 9 municipalities, and 4 special districts). Of the 17, 13 were qualified opinions (3 county agencies, 7 municipalities, 3 special districts), 3 were adverse opinions (2 municipalities, 1 special district), and there was 1 disclaimer of opinion (1 county agency). 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 disclaimer of opinion resulted from inadequate financial records and inadequate internal controls. The overall

percentage of 2005-06 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 2,652 findings in the audit reports reviewed, 1,172 (44 percent) did not include one or more of the required elements. As shown in Table 7, this represents a decrease in the total number of insufficiently detailed findings reported for the 2005-06 fiscal year in comparison with the prior fiscal year. In addition, as shown in Table 8, the total number of findings reported for the 2005-06 fiscal year increased by one percent as compared to the prior fiscal year. The relative overall percentage of insufficiently detailed findings represents a decrease from 51 to 44 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:

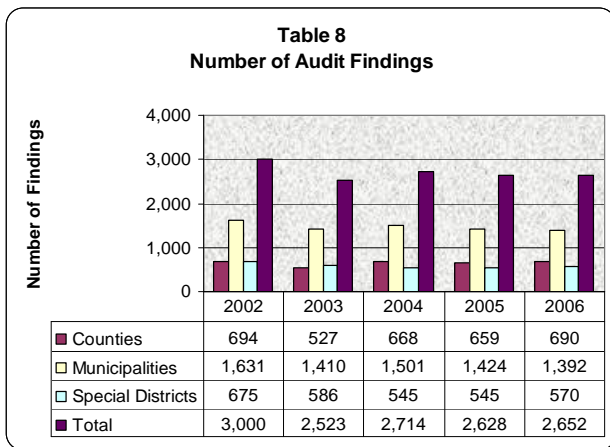
- A description of the criteria or specific requirement upon which the audit finding was based (e.g., statutory, regulatory, or other citation).
- A description of the condition found, including facts that support the deficiency identified in the finding.

- 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 197 (from 939 to 1,136, or 21 percent) since the 2001-02 fiscal year, primarily in special districts. However, as shown in Table 8, the number of findings has decreased by 348 (from 3,000 to 2,652, or 12 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 over the last five 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, 384 municipality, and 686 special district audit reports reviewed for the 2005-06 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 63 (16 percent) of the county agency reports, 68 (18 percent) of the municipality reports, and 48 (7 percent) of the special district reports, findings were noted regarding an inadequate separation of duties or responsibilities. This represents 12 percent of all reports and represents a 1 percent decrease in the 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 13 (3 percent) of the county agency reports, 58 (15 percent) of the municipality reports, and 24 (3 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 7 percent of all reports and represents a 1 percent decrease in the percentage of reports with *Policies and Procedures* findings in comparison with the prior fiscal year.

**Budget Administration**

For 23 (6 percent) of the county agency reports, 66 (17 percent) of the municipality reports, and 54 (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 the same 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 policies, failure to budget for all funds or projects, and budget overexpenditures. Examples included a board of county commissioners with expenditures in one fund that exceeded the final operating budget by \$4,028,638 as a result of recording transactions for the refinancing of long-term debt that were not budgeted for, a municipality that did not adopt a budget for all of its special revenue funds, and a special district that did not have a written policy regarding budget transfers. 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 46 (12 percent) of the county agency reports, 100 (26 percent) of the municipality reports, and 37 (5 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 13 percent of all reports and represents a 1 percent increase in the percentage of reports with *General Accounting Records* findings in comparison with the prior fiscal year. Examples included a sheriff that did not maintain a general ledger for special revenue and agency funds, a municipality that did not have a system for documentation and approval of journal entries, and a special district that required multiple adjustments to the prior period due to errors in the application of accounting principles. Such recordkeeping problems affect an entity's ability to monitor its use of public resources and increases 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 11 (3 percent) of the county agency reports, 25 (7 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 3 percent of all reports and represents a 2 percent decrease of reports with *Financial Reporting* findings in comparison with the prior fiscal year. Examples included a clerk of the court that did not submit required revenue and expenditure reports to state agencies by the required due date, a municipality that did not provide comprehensive monthly financial statements to the city commissioners throughout the fiscal year, and a special district that did not prepare the financial statements and note disclosures in accordance with generally accepted accounting principles. 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 35 (9 percent) of the county agency reports, 56 (15 percent) of the municipality reports, and 28 (4 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 a check, resulting in a duplicate payment; a municipality that failed to record adjusting entries, resulting in negative cash balances in several funds; and a special district that had regular business checking accounts rather than public fund accounts, which subjected approximately \$2 million to risk of loss if there is a bank failure. Such cash accountability problems increase the risk of unauthorized disbursements or losses of cash that could occur without being promptly detected.

### ***Fixed Assets***

For 31 (8 percent) of the county agency reports, 107 (28 percent) of the municipality reports, and 42 (6 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 12 percent of all reports and represents a 1 percent decrease in the 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 could not locate 66 items totaling \$60,783 during the physical inventory count, a municipality that did not properly maintain fixed asset records and did not perform an inventory of fixed assets, and a special district that did not adhere to the legal requirements for the disposition of capital assets. 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 50 (13 percent) of the county agency reports, 103 (27 percent) of the municipality reports, and 29 (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 12 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 improperly deferred revenues related to impact fees, a municipality that continued to provide services to users after the cut-off of services had been issued for delinquency of payment, and a special district that did not bill and collect receivables in a timely manner. 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 23 (6 percent) of the county agency reports, 65 (17 percent) of the municipality reports, and 33 (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 8 percent of all reports and represents a 1 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 sheriff that used pay rates that differed from the rates in the personnel files, a municipality that paid its employees prior to the end of the payroll period, and a special district that was not in compliance with the Internal Revenue Code

regarding appropriate and timely payroll tax deposits and reporting. Such personnel and payroll problems affect an entity’s ability to demonstrate compliance with legal requirements and increases the risk of inappropriate or inefficient use of public resources.

**Purchasing/Contract Management**

For 36 (9 percent) of the county agency reports, 61 (16 percent) of the municipality reports, and 30 (4 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 the same 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 had not implemented procedures to ensure adequate oversight of grant administration, a municipality that did not adhere to its purchasing procedures regarding competitive bids, and a special district that paid credit card purchases directly from the statement without supporting documentation or evidence of approval. 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**

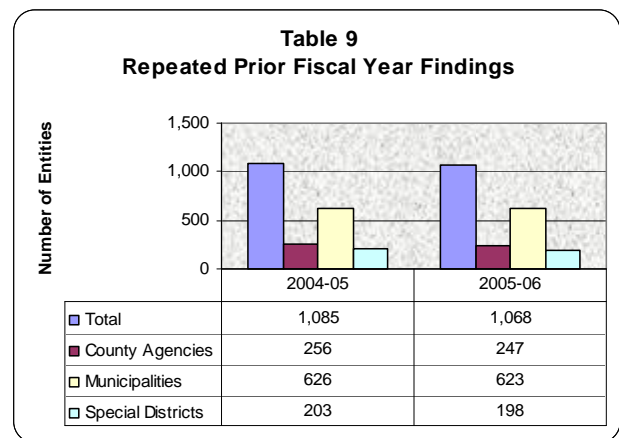
For 22 (6 percent) of the county agency reports, 64 (17 percent) of the municipality reports, and 26 (4 percent) of the special district reports, findings were noted regarding the expenditure of public funds. This represents 8 percent of all reports and represents the same percentage of reports with *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 did not pay vendor invoices in a timely manner, a municipality that paid several vendor invoices twice, and a special district that did not document approval of payment of various expenditures by management. 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 2005-06 fiscal year were also included in audit reports for the prior fiscal year. Of the 2,652 findings included in the audit reports reviewed, 1,068 (40 percent) were repeated from the prior fiscal year audit reports. As shown in Table 9, there was a slight decrease in the total number of repeated prior fiscal year findings for the 2005-06 fiscal year. The percentage of repeated prior fiscal year findings to total findings decreased from 41 to 40 percent.



Many of these repeated findings for the 2005-06 fiscal year were also included in 2003-04 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 2005-06 fiscal year audit reports submitted to us through March 28, 2008, by 66 counties (which include 388 individual county agency reports), 384 municipalities, and 686 special districts. The scope also included 2 municipality and 57 special district annual financial reports submitted to the Florida Department of Financial Services (FDPS) 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 from the annual financial reports. Although all local governmental entities are required to file annual financial reports with the FDPS, 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 amounts.

### 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, 2006.

David W. Martin, CPA  
Auditor General

This review was conducted by Kathryn A. Brewer, CPA, and Russell B. Brooks, 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](mailto: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 [www.myflorida.com/audgen/](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.

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**APPENDIX A**  
**FINANCIAL INDICATORS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

<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 the entity has declining flexibility 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, 2006**

<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>	
	2005	2006	2005	2006	2005	2006	2005	2006
<b>Separation of Duties</b> – Findings related to inadequate separation of duties	66	63	66	68	50	48	182	179
<b>Policies and Procedures</b> – Findings related to general lack of policies and procedures	16	13	58	58	31	24	105	95
<b>Budget Administration</b> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	26	23	62	66	55	54	143	143
<b>General Accounting Records</b> – 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)	48	46	90	100	25	37	163	183
<b>Financial Reporting</b> – Findings related to reporting of financial data externally or within the local governmental entity	18	11	39	25	12	12	69	48
<b>Cash</b> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	28	35	65	56	20	28	113	119
<b>Fixed Assets</b> - Findings related to noncompliance with legal requirements pertaining to fixed assets and the improper use of, and lack of accountability for, fixed assets	35	31	109	107	41	42	185	180
<b>Revenues/Collections</b> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	49	50	102	103	27	29	178	182
<b>Payroll and Personnel Administration</b> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	26	23	68	65	32	33	126	121
<b>Purchasing/Contract Management</b> - Findings related to problems with procurement of goods or services and contract or grant management	41	36	64	61	18	30	123	127
<b>Expenditures/Expenses</b> - Findings related to the expenditure of public funds	33	22	56	64	26	26	115	112