



Accounting and Financial Reporting

Certified Government Finance Officer (CGFO) Combined Study Guide



PowerPoint Review Presentations



Florida Government Finance Officers Association

Accounting and Financial Reporting

Certified Government Finance Officer (CGFO)

Review Session



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



Exam Topics

Accounting / Internal Control / Capital Assets – 30%

Financial Reporting (Internal and External) – 30%

Auditing – 15%

State of Florida Laws and Regulations – 15%

ACFR Award – 10%



Accounting & Financial Reporting





Learning Objectives

Recall the accounting standard setting body in the United States

Define the objectives of financial reporting

Identify the types of financial reporting

Recognize common terminology used in accounting and financial reporting





Learning Objectives

Identify the components of fund balance

Recall the definition of fund accounting

Recognize the three broad categories of funds

Recall the generic fund types for each category

Identify the measurement focus

Define the basis of accounting





Learning Objectives

Differentiate between the various reporting entities

Recall the accounting transactions for debt issuance

Define capital assets

Identify the common other financing sources and uses included on the financial statements

Differentiate between the various financial statement components

Define internal controls

Recall the components of the internal control framework





Standard Setting in the United States



Standard Setting in the U.S.

Financial Accounting Foundation – FAF

- **Final Authority** (1973) for accounting & reporting standards in both the public & private sectors
- Appoints FASB & GASB board members
 - Both establish accounting and financial reporting standards for respective constituents
- FAF responsible for oversight of standard setting process
 - **FASB** – Private Sector
 - **GASB** – Public Sector





Standard Setting in the U.S.

Governmental Accounting Standards Board (GASB)

- State and Local Governments
- Governmental Not for Profits

Financial Accounting Standards Board (FASB)

- For-profit
- Non-governmental Not for Profits





Standard Setting in the U.S.



1. Both use due process

- Documents circulated to constituents
 - Discussion Memorandum
 - Invitation to Comment
 - Preliminary Views
 - Exposure Drafts, etc.
- Comments solicited & all submitted to board for consideration in standard setting deliberations

2. Both have seven (7) members

3. Process really does work





Standard Setting in the U.S.

American Institute of Certified Public Accountants (AICPA)

- Establish audit & attest standards for non-issuers
- Officially recognizes FASB & GASB as authoritative standard setting bodies for Generally Accepted Accounting Principles (GAAP)

Role of the Federal Accounting Standards Advisory Board (FASAB) is intentionally omitted





Standard Setting in the U.S.

GAAP Hierarchy

- GASB Statements & Interpretations
- GASB Technical Bulletins
 - AICPA Industry Audit & Accounting Guides *
 - AICPA Statements of Position *
- AICPA Practice Bulletins *
- Implementation Guides published by GASB staff

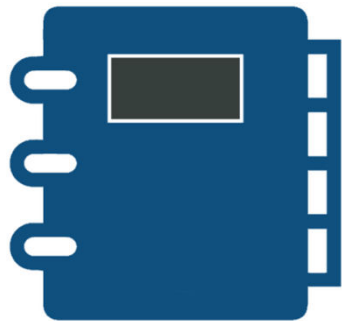
*(If made applicable & cleared by GASB)





Standard Setting in the U.S.

GASB Concept Statements



Establish objectives & concepts

Provide framework

Establish consistent reporting standards

Relating to financial accounting & reporting

DO NOT establish accounting principles

Utilize same due process as other GASB standards

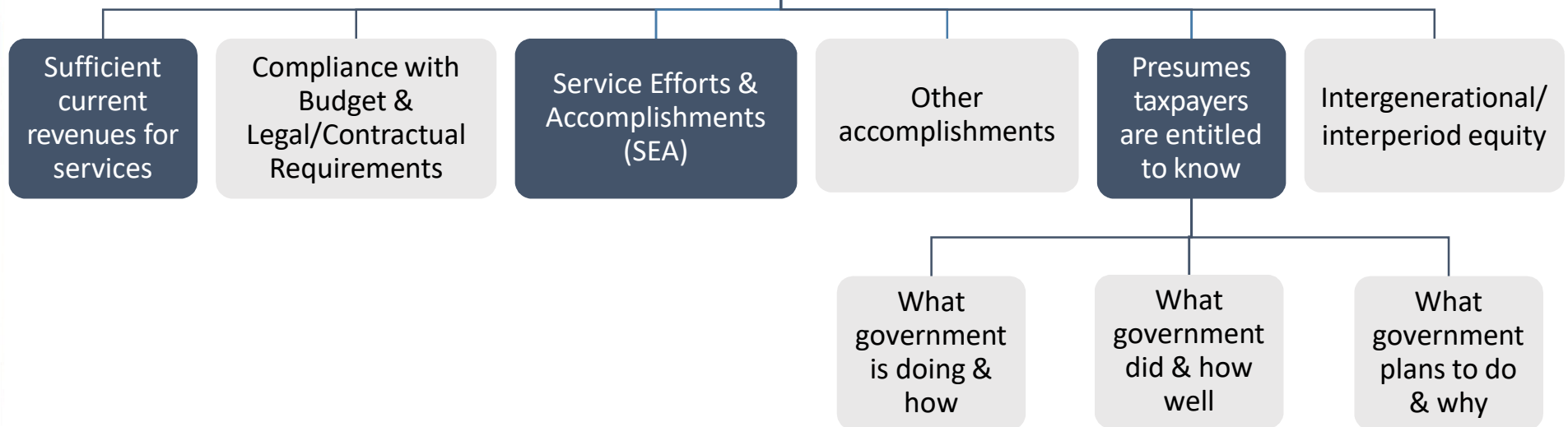




Standard Setting in the U.S.

GASB Concepts Statement No. 1

Public accountability





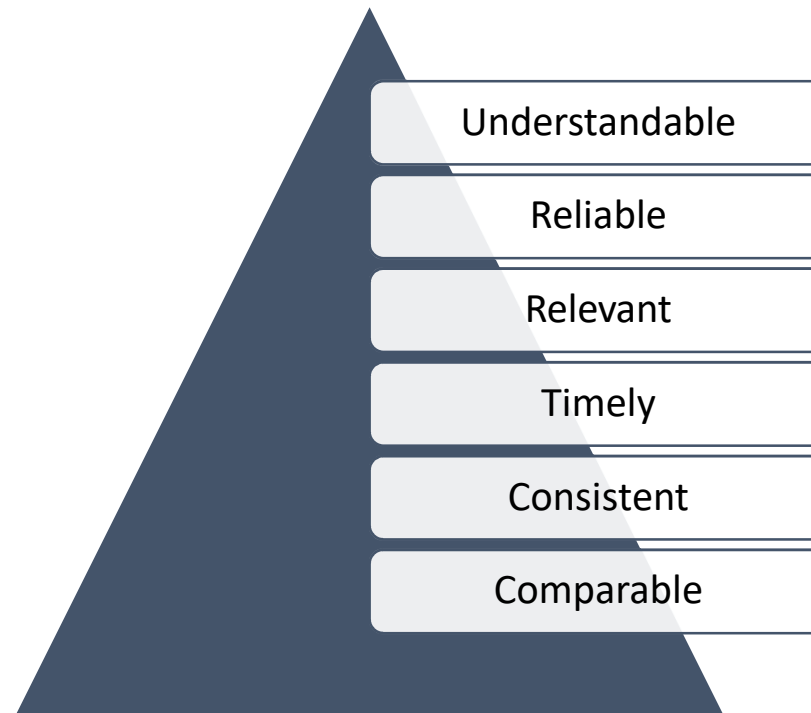
Financial Reporting



Objectives of Financial Reporting

Accounting data used for decision making

- Financial reporting should be:





Types of Financial Reporting

Three types of reporting

External Financial Reports

- Primary Users:
 - Citizens
 - Legislative and oversight bodies
 - Investors and creditors

Special Purpose External Financial Reports

- Primary Users:
 - Grantors
 - State Regulatory Agencies

Internal Financial Reports

- Primary Users:
 - Management





Common Terminology



Common Terminology

Fund Accounting – Definition

- Fund accounting is an accounting system emphasizing **accountability** rather than **profitability**, used by **non-profit organizations** and governments.
- In this system, a fund is a self-balancing set of **accounts**, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations. *



*Leon E. Hay (1980). *Accounting for Governmental and Nonprofit Entities*, Sixth edition, page 5





Common Terminology

Asset	Resources with present service capacity that government presently controls
Liability	Present obligations to sacrifice resources that the government has little or no discretion to avoid
Deferred Outflow	Consumption of net position by the government that is applicable to a future reporting period
Deferred Inflow	Acquisition of net position by the government that is applicable to a future reporting period
Net Position	Residual of all other elements presented in the statement of financial position





Common Terminology

Fund Balance	Difference between assets & liabilities
Revenue	Fees charged for services
Expenditures*	Cost of providing services

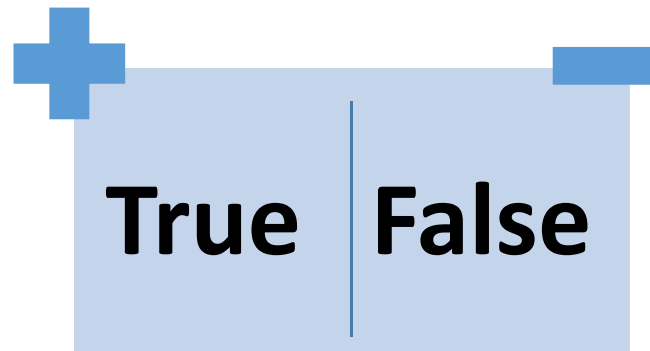
*Applicable to governmental type, fund level statements





Review Question

Primary Users of Internal
Financial Reports are the
Creditors





Common Terminology

Normal Account Balances:
Debit is the normal account balance for

Asset

- Cash
- Accounts Receivable

Expense/Expenditure

- Salaries and benefits
- Office supplies





Common Terminology

Normal Account Balances:

Credit is the normal account balance for

Liability	Revenue	Fund Equity
<ul style="list-style-type: none">• Accounts Payable	<ul style="list-style-type: none">• Water fees• Property Taxes	<ul style="list-style-type: none">• Fund Balance• Net Position

Debits must equal credits





Common Terminology

Current Assets	Used in operations or converted to cash within one year
Capital Assets	Benefit the organization for more than one year (service life) <ul style="list-style-type: none">• Includes intangible assets
Current Liabilities	Obligations due within one year (includes current portion of Long Term Debt)
Non-Current Liabilities	Obligations due in more than one year





Fund Accounting



Fund Accounting

How Many Funds Do We Use?

- Use “**minimum number**” of funds necessary for sound financial management and legal requirements.
- Limit the number of funds
 - Required by law
 - In accordance with sound financial administration





Fund Accounting

Fund accounting is comprised of three broad categories:



- ☐ Governmental funds
- ☐ Proprietary funds
- ☐ Fiduciary funds



Governmental Funds are comprised of five generic fund types:



- ☐ General Fund
- ☐ Special Revenue
- ☐ Capital Projects
- ☐ Debt Service
- ☐ Permanent





General Fund

General Fund



To account for and report all financial resources not accounted for and reported in another fund

Only fund required by GAAP

Only one “General Fund”

Small Local Government may have only a General Fund





Governmental Funds

Special Revenue

Account for and report the proceeds of **specific revenue** sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects

Debt Service

- Resources accumulated to pay long term debt
- Principal & interest

Capital Projects

Acquisition/construction of major capital assets

Permanent

Resources restricted to extent that earnings and not principal may be used for support of entity programs





Proprietary Funds

Proprietary Funds are comprised of two generic fund types

- **Internal Service**
 - Services provided by one agency to another on a cost reimbursement basis (internal customers)
- **Enterprise**
 - Operations financed & operated similar to private business
 - Charge users a fee for services (external customers)
 - Accountability (not “profit” makers)





Fiduciary Funds

Fiduciary Funds are comprised of four generic fund types

Pension Trust Fund

- Resources held in trust for others

Investment Trust Fund

- Pooled resources of legally separate entities
- Entity holds investments on behalf of others

Private-purpose Trust Fund

- Principal and income benefit specific individuals or organization

Custodial* Fund

- Pass-through funds
- Taxes or fees collected for another government
 - Property Tax, utility deposits, child support, intangible tax, etc.

* GASB 84 – Renamed Agency Fund to Custodial Fund





Basis of Accounting

Measurement focus refers to **WHAT**
transactions are measured

Two types of
measurement
focus

Economic resources

Current financial
resources





Economic Resources Measurement Focus

Economic resources measurement focus

- Measure inflows and outflows of economic resources
- Focus on **big picture**
- Current and noncurrent assets and liabilities are included
 - Capital assets
 - Long-term debt





Economic Resources Measurement Focus

Economic resources measurement focus

- Focuses on ***operational accountability***
 - Whether management effectively and efficiently uses resources in providing services
- Proprietary and fiduciary funds use the economic resources measurement focus

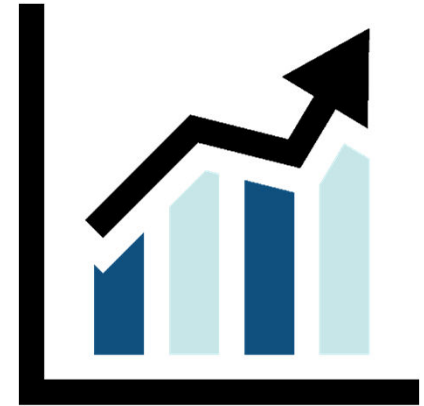




Current Financial Resources Measurement Focus

Current financial resources measurement focus

- Measures inflows and outflows of current financial resources
 - **Current Assets**
 - Cash
 - Accounts Receivable
 - **Current Liabilities**
 - Payables

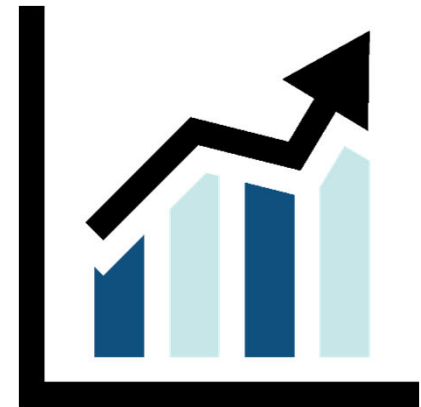




Current Financial Resources Measurement Focus

Current financial resources measurement focus

- Governmental funds use the current financial resources measurement focus
- Focuses on ***fiscal accountability***
 - Whether management has met budgetary and other legal financial requirements





Basis of Accounting

The technical term that describes the criteria governing the timing of the recognition of transactions and events is **basis of accounting**.

Revenues are recognized when available and measureable

Expenditures are recognized when:

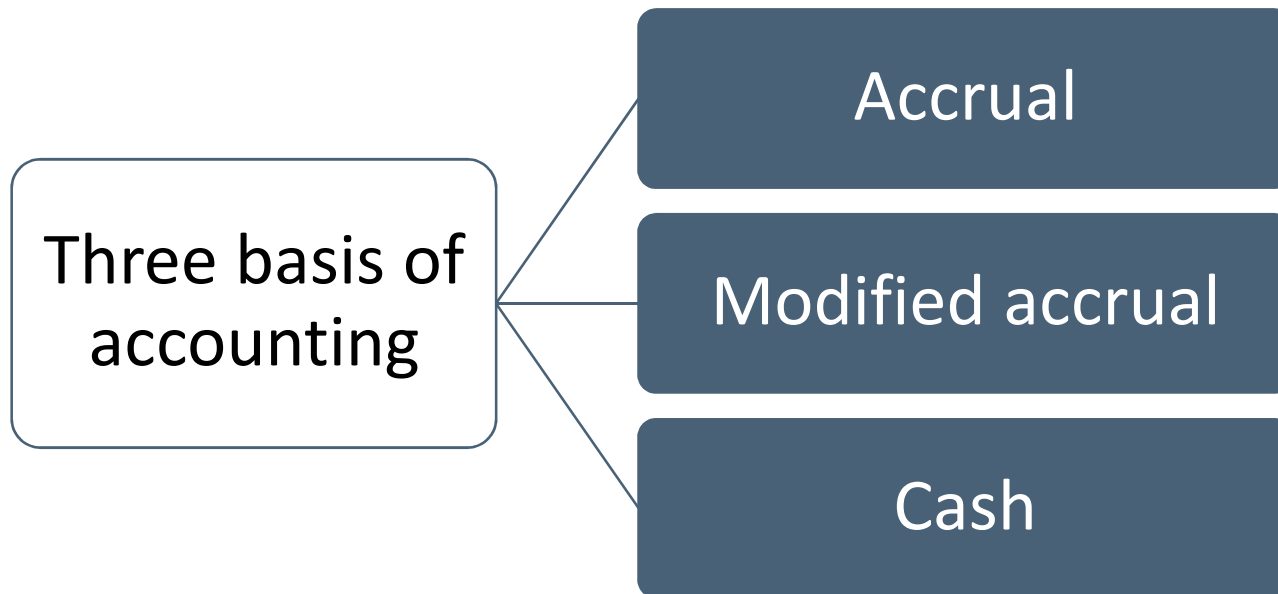
- A liability is incurred
- The amount is determinable
- The liability will be paid from current resources





Basis of Accounting

Basis of accounting determines **WHEN**
transactions are recorded





Accrual Basis of Accounting

Accrual Basis

- Recognizes the financial effects of transactions, events and interfund activities when they occur, **regardless of the timing of related cash flows**
 - Revenues – When **earned**
 - Expenses – When **incurred**

Proprietary and Fiduciary funds use the accrual basis of accounting





Modified Basis of Accounting

Modified Accrual Basis

- Revenues are recorded
 - When measurable and available
 - 60 day criteria
- Expenditures
 - Expected to be liquidated with current financial resources (recognized in the period governments liquidate the related liability rather than when the liability is first incurred).

Governmental funds use the modified accrual basis of accounting





Cash Basis of Accounting

Cash Basis of Accounting

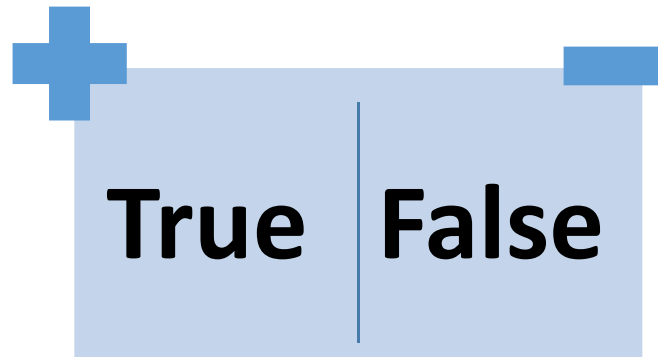
- Recognizes transactions or events when cash is received or disbursed
- This basis is not in accordance with Generally Accepted Accounting Principles (GAAP)





Review Question

A local Government can have more than one General Fund





Summary

	Measurement Focus	Basis of Accounting
Government-wide statements	Economic Resources	Accrual
Governmental fund statements	Current Financial Resources	Modified Accrual
Proprietary fund statements	Economic Resources	Accrual
Fiduciary fund statements	Economic Resources	Accrual





Accounting for Long-Term Debt & Capital Assets



Debt Issuance

General Obligation Bonds (GO Debt)

- Requires voter approval
- No specific pledge other than the “**full faith & credit**” of the government.

Revenue Bonds

- Pledge of specific revenue source **OR**
- Restricted asset use or asset set aside
 - Typically associated with enterprise fund borrowings but also used for governmental borrowings





Debt Issuance – Fund Level Statements

Accounting treatment on bond issuance

Fund Level Statements – Current Financial Resources Measurement Focus

Governmental Funds

- Face value of Bonds – Other Financing Source
- Discount/Premium – Other Financing Use/Source
- Bond Insurance – Expenditure
- **Bond Issuance Costs – Expenditure**

Proprietary Funds

- Face value of Bonds – Liability
- Discount/Premium – Liability (Contra)/Liability
- Bond Insurance – Asset
- **Bond Issuance Costs – Expense**





Debt Issuance – Government-Wide Statements

Government-Wide Statements - Accounting treatment for bond issuance is the same for BOTH Governmental and Proprietary Funds

Accounting for Bond Issuance

- Face value of Bonds – Liability
- Discount/Premium – Liability (Contra)/Liability
- Bond Insurance – Asset
- Bond Issuance Costs –Expense





Debt Expenditures

- GAAP generally requires recognition of expenditures when debt service payments are due
 - Can recognize before due if due early in next FY and the following are met:
 - Using a debt service fund
 - Advance provision of resources is **mandatory**
 - Payment is due in a short time period (one month maximum)





Short-Term Obligations

Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs)

Used to meet near-term cash flow requirements

Borrow in anticipation of pending collections

Fund liability even if maturity exceeds 12 months





Debt Refunding

Why is it done?

A lower market interest rate is available

To eliminate onerous bond covenants

To free up current pledged revenues

Types of refunding

Advance Refunding

Current Refunding





Debt Refunding

Advance Refunding

- Old debt is not yet callable
- New debt is issued, the proceeds are placed in irrevocable trust/escrow to meet the debt service payments of the old debt
 - Old debt is technically outstanding until the call date or maturity
- New debt proceeds = “**other financing sources**”
- Trust/escrow payments = “**other financing uses**”





Debt Refunding

Current Refunding

- Old debt issue is callable – NOW - & retired with the proceeds of the new debt
- New debt proceeds = “**other financing sources**”
- Payment of old debt = “**debt service expenditure**”





Debt Refunding

Arbitrage

- Practice of investing low-yielding tax-exempt bond proceeds in higher-yielding taxable instruments
- Highly technical area
- Liability recognition may be required





Capital Assets Defined

Capital Assets

- Benefits more than a single fiscal period (one year)
- Used in Operations
 - Tangible
 - Land, Buildings, Works of art, Historical treasures, infrastructure
 - Intangible
 - Easements, software, water rights





Capital Assets

Reported at:

Actual/estimated historical cost



Fair value (FV) **ONLY** if donated

Interfund transfers at lower of
Net Book Value (NBV) or Fair
Value (FV)





Capital Assets

Depreciation

- The allocation of the cost of the asset over the estimated useful life
- Governmental funds
 - **Do not** depreciate at the fund level
 - Depreciate at the government-wide level
 - Reconcile from fund level to government-wide level
- Proprietary & fiduciary funds
 - Depreciate at the fund level
 - Depreciation at the government-wide level is arithmetic total of funds





Capital Assets

Depreciation

Three situations where assets are **NOT** Depreciated

1. Capital assets with an indefinite useful life
(such as land, works of art, historical treasures,
etc.)
2. Infrastructure accounted for using the
“Modified Approach”
3. Construction in Progress





Capital Assets

Special issues

- Infrastructure
 - Immovable fixed assets
 - Of value only to the government (GAAP)
 - Able to be preserved for a significant number of years
 - Examples: Roads, Sidewalks, Bridges, etc.
 - Modified approach (if used – additional Note Disclosures)





Capital Assets

Special issues

Intangibles

- Easements, “in-house” software, etc.

Leased assets

- Accounting at fund level

Capitalized interest*

- Proprietary & fiduciary fund assets only

*Effective with GASB 89 - Interest cost incurred before the end of a construction period is no longer capitalized and will be recognized as an expense.





Landfill Closure / Post Closure Costs

Government that operates is responsible for:

- Properly closing
- Monitoring & maintaining site to prevent environmental damage

Closure & Post-closure care for landfills

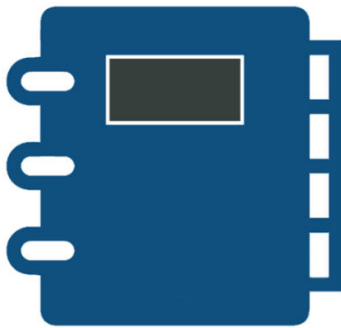
- Recognized cost over the life of the landfill
- Based on estimated cost at the end of each year
- **AND** percentage of landfill capacity used to date





Other Financing Sources and Uses

Sources (most common)



Issuance of long-term debt (face amount and premium)

Inception of a capital lease

Sale of Capital Assets (if significant)

Insurance recoveries

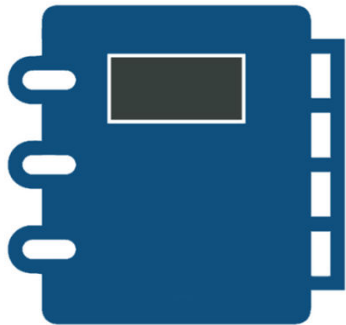
Transfers from other funds (**NOT** interfund loans)





Other Financing Sources and Uses

Uses (most common)



Original issue discount on debt

Payments to advance refunding escrow agent

Transfers to other funds (**NOT** interfund loans)





Reporting Entity



Reporting Entity

Primary Government

- States/local governments
 - General or special purpose
- Including fiduciary funds





Reporting Entity

Component Units

- Financial accountability
- Primary government is **financially accountable** for another organization if
 - It **appoints a voting majority** of the organization's governing board **AND**
 - It can either
 - **Impose its will** on that organization **OR**
 - Potentially provide specific **financial benefits to or impose a financial burden on** the other organization





Reporting Entity

If Primary Government DOES NOT appoint majority of governing board, it is financially accountable for another organization if other organization:

- Is **fiscally dependent** on Primary Government OR
- Holds economic resources entirely/almost entirely for the Primary Government AND
- Primary Government is entitled to/has ability to access majority of economic resources being held by other organization AND
- Resources being held are significant to Primary Government





Reporting Entity

If neither of prior two apply:

Would it be
misleading to
exclude?



If so, include as a
Component Unit.





Reporting Entity

**Joint Venture
is/has:**



Contractual agreement

Joint control of assets

On-going financial relationship

Not a component unit





Financial Statement Overview



Financial Statements Overview

Financial Statements

- Government-Wide Statements
- Fund Level Statements

Note Disclosures

- Summary of Significant Accounting Policies (SSAP)

Management's Discussion and Analysis (MD&A)





Financial Statements Overview

Items of Note:

- Investments
- Interfund Transfers vs Loans
- Security Lending Agreements
- Non-exchange Transactions

Financial Reporting

- Pension Plans
- Other Post-Employment Benefits (OPEB)

Internal Financial Reporting





Financial Statements Overview

GAAP Statements include:

- MD&A **AND**
- Basic Financial Statements
 - Government-wide statements
 - Fund level statements
 - Notes to the financial statements





Financial Statements Overview

GAAP Statements **CAN** also include:

Required supplementary information (RSI)

- Budget to actual comparison
 - Option to report in basic financial statements
 - General Fund & Major Special Revenue Funds with legally adopted budgets
 - Reconcile budget basis to GAAP
- Modified approach for Capital Assets
 - Maintain up to date inventory
 - Condition assessment – every three years
 - Annual amount to maintain condition
 - Document preservation level – current level or better





Financial Statements Overview

GAAP Statements **CAN** also include:

Required Supplementary Information (RSI)

- **Pensions**

- Schedule of employer contributions
- Schedule of funding progress

- **OPEB**

- Schedule of employer contributions
- Schedule of funding progress





Financial Statements Overview

Not required by GAAP

Annual Comprehensive Financial Report (ACFR)

- Introductory Section
 - Letter of Transmittal
 - Organizational Chart
 - Awards
- Statistical Section
 - Financial Trend
 - Revenue Capacity
 - Debt Capacity
 - Demographic & Economic Information
 - Operating Information





Financial Statements Overview

Not required by GAAP

Supplemental information

- Combining statements
 - Non-major funds
 - Component units
 - Major & non-major funds





Financial Statements Overview

Government-wide financial statements

- Economic resources & full accrual
- Net position, revenues, expenses
- Governmental & Business-type Activities
- Fiscal & operational accountability
- Interfund balances eliminated if appropriate
- Same governmental or business unit
- Fiduciary funds **EXCLUDED**





Financial Statements Overview

Fund level financial statements

- Governmental Funds
 - Fund balance, revenues, expenditures, other sources & uses of funds
- Proprietary Funds
 - Net position, operating and non-operating
- Fiduciary Funds
 - Fiscal accountability
- Required to reconcile to government-wide financial statements
 - Fund balance to net position
 - Change in fund balance to change in net position





Financial Statements Overview

Component Units are reported by:

Discrete presentation

- Only presented in Government-Wide Statements
- Separate column – immediately to right of primary government
 - Separate column for major Component Units
 - Non-major Component Units aggregated

Blended presentation

- Presented in both Government-Wide and Fund level statements
- Component Units financial information included with appropriate funds of the primary government





Financial Statements Overview

Government-wide Statements – Internal Service Funds

Incorporated into government-wide statement as part of the governmental activities

Business type activities if most customers from proprietary funds

Revenues
=
“Billings to Departments”

Surplus treated as a reduction of expenses in all participating funds

“Excess of Billings Over Costs”





Financial Statements Overview

Government-wide Statements – Segment Reporting

Segment Disclosure

- Footnotes
- Required when revenue backed debt is outstanding
- Not required for segments that are major enterprise funds
- Key factor in condensed financial statements





Financial Statements Overview

Government-Wide Program Revenues

Taxes do not qualify

- Even if voted/restricted for specific purpose

Grants

- Operating
- Capital
- Reimbursement type grants qualify
 - When restricted to specific program

Charges for services





Components of Fund Balance

As a result of GASB 54, fund balance is reported in the financial statements based on the following categories

Nonspendable Fund Balance

- Cannot be spent because of:
 - Form (e.g. inventory, prepaid assets)
 - Must be maintained intact (e.g. principal of endowment fund)
- Examples include the following:
 - Inventories
 - Long-term receivables
 - Prepaid items
 - Permanent Fund Principal





Components of Fund Balance

Restricted Fund Balance

- Externally enforceable limitations on use
 - By creditors, grantors, contributors, laws
 - By law – constitutional or enabling legislation





Components of Fund Balance

Committed Fund Balance

- Constraint in place before end of period
- Constraint on use self-imposed – using highest level of decision making authority
- Must be removed by same “highest level” that imposed it
- Examples may include the following:
 - Stabilization funds
 - Capital project carryforward





Components of Fund Balance

Assigned Fund Balance

- Constraint results from intended use
 - Intent expressed by governing body or authorized official
 - “Intended use” delegated to lower level
 - May be removed by same level that received delegation
- Examples may include the following:
 - Stabilization funds
 - Capital project carryforward





Components of Fund Balance

Unassigned Fund Balance

- Residual net resources
- Balance in excess of:
 - Nonspendable/restricted/committed/assigned (i.e., surplus)
- Positive amount should only be reported in the General Fund





Note Disclosure

Three types of information:

Descriptions of Policies
underlying the
amounts in financial
statements (SSAP)

Additional detail
concerning amounts in
financial statements

Additional information
on items that do **NOT**
meet the criteria for
recognition and so are
NOT included in the
financial statements.





Note Disclosure

No need to disclose that a situation is not applicable (i.e., negative disclosure)
- with two exceptions:

- Situations where GAAP specifically requires disclosure of whether a given set of circumstances applies
- Situation in which absence of a given set of circumstances is so unusual that omission would be viewed as a material oversight



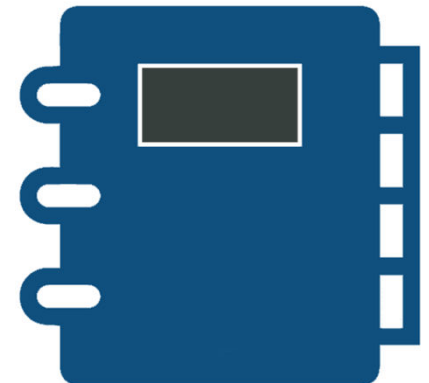


Note Disclosure

Summary of Significant Accounting Policies

Disclosure of accounting policies required by GAAP includes:

- Selection of accounting treatment when choices are available
- Accounting principles & methods peculiar to government
 - Measurement focus & basis of accounting
- Unusual/innovative GAAP applications





Management's Discussion and Analysis MD&A

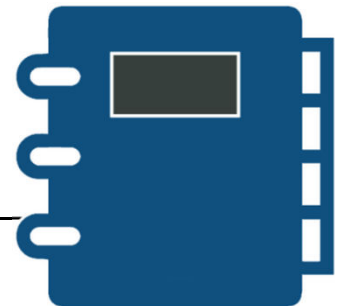
Normally not in scope of Financial Statement audit

Narrative introduction overview & analysis

Should be objective and easy to read

Provides an analysis of financial activities

Focuses on relationship of governmental funds & governmental activities as reported in government-wide statements





Management's Discussion and Analysis MD&A

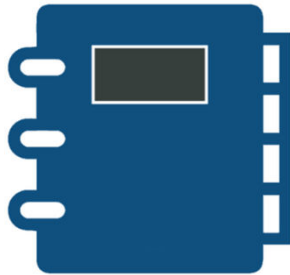
- Does **NOT** replace the Letter of Transmittal
- Located right after the auditor's opinion letter
- Required under GAAP but **NOT** part of the Basic Financial Statements
- Supplements Basic Financial Statements





Management's Discussion and Analysis MD&A

Includes the following



Discussion of Basic Financial Statements

Condensed comparative data

Analysis of the government's overall financial position and results of operation

Analysis of balances & transactions of individual funds

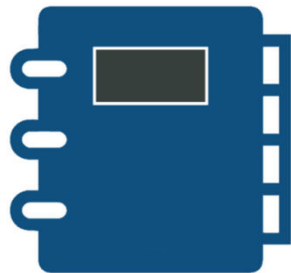
Analysis of budgetary variations





Management's Discussion and Analysis MD&A

Includes the following



Description of capital asset and long-term debt activity

Discussion of infrastructure (if the modified approach is used)

Discussion of currently known facts, decisions, or conditions of future significance





Items of Note - Investments

Report investments at fair value

- Governmental funds
- Proprietary funds
- Fiduciary funds
- Types
 - Land & other real estate held by endowments
 - Debt Securities
 - Interest earning investment contracts
 - Positions in open-end mutual funds





Items of Note - Investments

Report investments at fair value



- GASB #53 – Accounting & Financial Reporting for Derivative Instruments
 - Extensive disclosure requirements:
 - Instrument type (swap, lock, option, cap, collar, etc.)
 - Disclose objectives, terms & risks
 - Disclose methods & assumptions used to determine “**fair value**”





Items of Note - Securities Lending Agreements

Have broker fees associated

Could be backed by letter of credit

Governments receive collateral

Asset - securities lent

Liability – amount owed

- Never net the two against each other





Items of Note – Non-Exchange Transactions

Four Sub-classes

Derived Tax
Revenues

Sales tax, income
tax, fuel tax

Imposed
non-exchange
revenues

Property taxes
(Ad valorem &
personal), fines &
forfeits

Government
mandated
non-exchange
transactions

Formula grants

Voluntary
non-exchange
transactions

Reimbursement
grants &
donations





Financial Reporting – Pension Plans

Net Pension Obligation (NPO)

- **Positive** NPO occurs when employer fails to fully fund annual required contribution (ARC)
 - Report as long-term liability in government-wide statements
- **Negative** NPO occurs when ARC is overfunded
 - Report as asset in government-wide statements
- Debt issued to fund ARC reduces NPO





Financial Reporting – Pension Plans

State & Local Government Pension Plans

Additions

- Contributions from employers, non-employer contributing entities and plan members
- Net investment income

Deductions

- Benefit Payments
- Administrative Expenses (Management expenses & custodial fees)





Financial Reporting – Pension Plans

Notes

- Descriptive Information
- Plan investments
- Contributions, reserves, and allocated insurance contracts

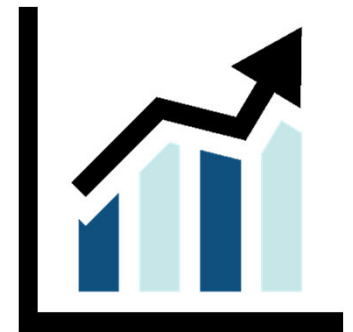




Financial Reporting – Pension Plans

RSI

- 10 most recent fiscal years
 - Net pension liability
 - Actuarially determined contribution, contributions, related ratios
 - Annual money-weighted rate of return on investments
 - Sources of changes in net pension liability
 - Components of net pension liability and related ratios
 - Net position as a percentage of total pension liability
 - Net pension liability as a percentage of covered-employee payroll





Financial Reporting – Pension Plans

Pension plan administered by others (FRS)

- **Net Pension Liability**
 - Present value of projected benefit payments (total pension liability) minus the amount of the pension plan's fiduciary net position **OR**
 - Present value – net position = Net Pension Liability
- **Actuarial valuation**
 - Required at least every two years





Financial Reporting – Pension Plans

Statement #68

Projections of benefit payments

- Based on benefit terms & legal agreements at measurement date
- Effects of ad hoc postemployment benefit changes, if substantively automatic (COLAs)
- Discounted to actuarial present value using single rate that reflects:
 - Long-term expected rate of return on investments **AND**
 - Tax-exempt, high-quality municipal bond rate





Financial Reporting – Pension Plans

Statement #68

- Economic resources/accrual based
 - Liability equal to net pension liability
- Current resources/modified accrual based
 - Liability to the extent it is normally expected to be liquidated with expendable available financial resources





Other Post Employment Benefits (OPEB)

- Exchange of salaries & benefits
- Part of compensation for services
- Common OPEB Obligations
 - Health Insurance (most common)
 - Life Insurance
 - Any post-employment benefit not defined as a pension





Financial Reporting – OPEB

Statement #75

- Economic resources/accrual based
 - Liability equal to net OPEB liability
- Current resources/modified accrual based
 - Liability to the extent it is normally expected to be liquidated with expendable available financial resources





Other Post Employment Benefits (OPEB)

Implicit Rate Subsidy

Created when:

- Retirees pay same rate as active employees
- Called “**Blended Rate**”

Subsidy is:

$$\begin{aligned} &\text{Rate Charged} - \text{Rate if retirees calculated as separate group} \\ &= \\ &\text{Implicit Rate Subsidy} \end{aligned}$$



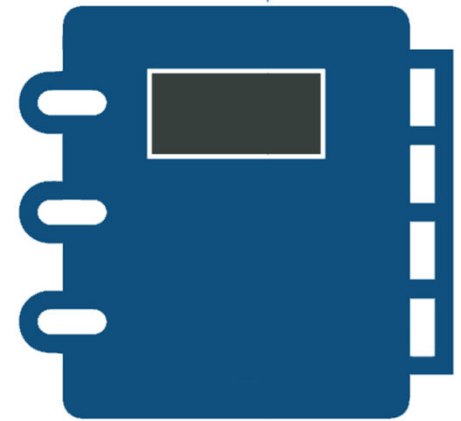


Other Post Employment Benefits (OPEB)

Disclose in notes:

- Description of benefits
 - Implicit subsidy
 - Explicit subsidy
- Description of significant accounting policies
- Funding policy
- Funding status
- OPEB expense & net OPEB liability*
- Actuarial assumptions (major)

*Difference between amounts expensed & contributions made/benefits paid



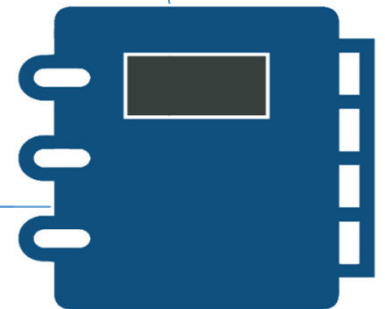


Other Post Employment Benefits (OPEB)

Disclose in notes:

In addition to note disclosures previously required for OPEB, Statement 75 requires disclosure of:

- OPEB expense calculation
- Reconciliation of changes in deferred outflows and inflows of resources
- Impact on the OPEB liability of a **one** percentage point **increase** and **decrease** in
 - Discount rate **and**
 - Healthcare cost trend rate



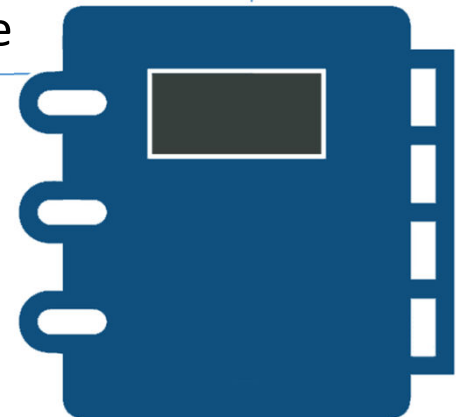


Other Post Employment Benefits (OPEB)

Disclose in notes:

Governments with single and agent plans are required to disclose:

- Effects of changes during the period on the total OPEB liability, such as effects of service cost, benefit changes and investment earnings
- The OPEB plan's fiduciary net position, if applicable





Financial Reporting – OPEB

RSI

- 10 most recent fiscal years (prospective basis)
 - Net OPEB liability
 - Actuarially determined contribution, contributions, related ratios.
 - Annual money-weighted rate of return on investments.
 - Sources of changes in net OPEB liability
 - Components of net OPEB liability and related ratios
 - Net position as a percentage of total OPEB liability
 - Net OPEB liability as a percentage of covered-employee payroll





Internal Financial Reporting



Occurs as often as management deems necessary

Typically on budgetary basis (not required)

Does **NOT** need to follow GAAP

Allows management to monitor compliance with legal & contractual provisions

Provides management information on current financial performance





Review Question

ACFR stands for:

- ☐ Annual Consolidated Financial Report
- ☐ Annual Comprehensive Financial Report
- ☐ Annual Comprehensive Federal Report
- ☐ None of the above





Internal Controls



Internal Control - Defined

Internal Control is a process, effected by an entity's governing body, management and other personnel designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations





Choosing Internal Control System

- Many different models exist
- State/local government who receive federal awards (grants), choices are narrowed:
 - COSO – Committee of Sponsoring Organizations
 - Green Book – Standards of Internal Control for Federal Government





Choosing Internal Control System

The Code of Federal Regulations (CFR)

*§200.303 Internal controls. The non-Federal entity **must**: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

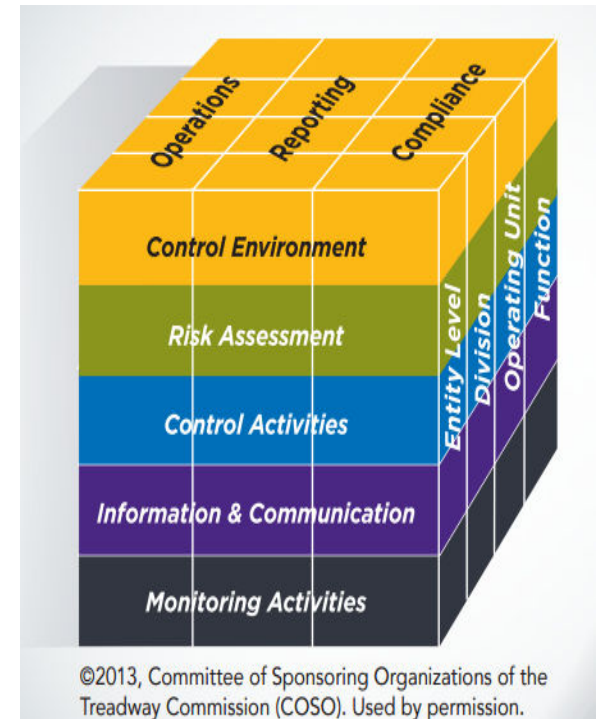
2 CFR 200.303





Models of Internal Control System

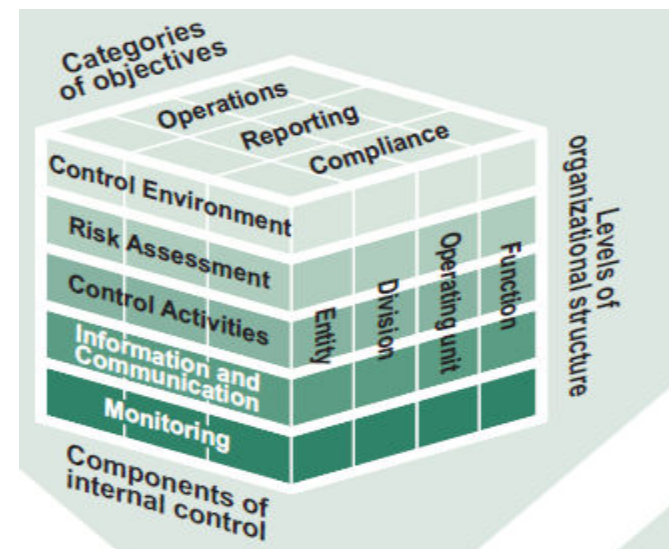
The most widely recognized internal control framework is the COSO framework. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.





Models of Internal Control System

The *Standards for Internal Control in the Federal Government* also known as the “Green Book” is issued by the Comptroller General of the United States. Although written for the Federal government, it is commonly adapted for state and local governments.





Models of Internal Control System

COSO

- 5 Components
 - Required
 - Must be present and functioning
- 17 Principles
 - Required
 - Supports components
- 77 Points of Focus
 - Not required
 - Important characteristics of principles

Green Book

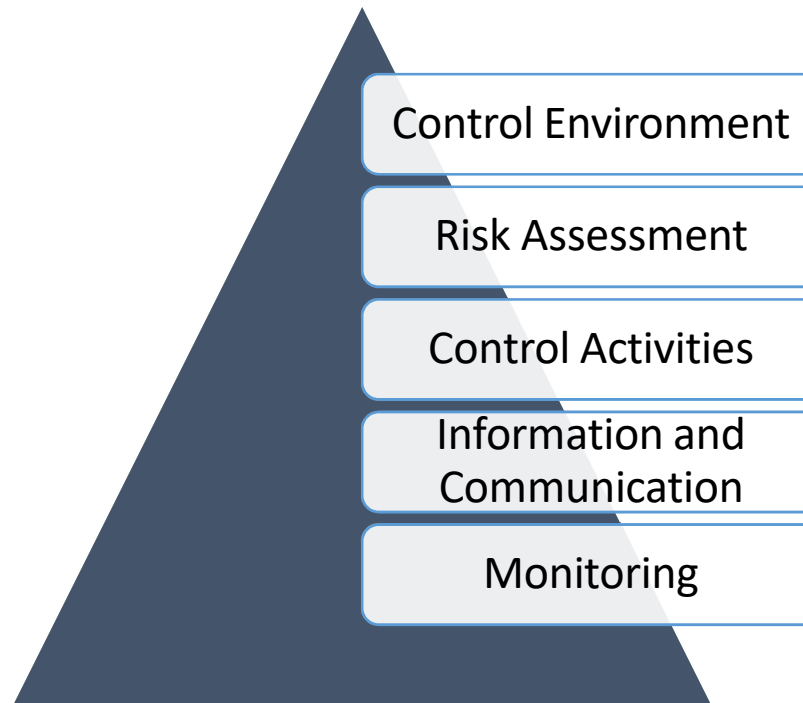
- 5 Components
 - Required
 - Must be present and functioning
- 17 Principles
 - Required
 - Supports components
- 44 Attributes
 - Not required
 - Explains principle; what the requirement is and what it is intended to cover





Internal Control Framework

The framework consist of five interrelated components:





Internal Control Framework

Control Environment

Control Environment

Risk Assessment

Control Activities

Information and
Communication

Monitoring

- The organizational attitude toward internal control
- Sets the tone of the entity
- Provides an atmosphere in which people conduct their activities and carry out their control responsibilities
- Forms the overall attitude, awareness, and actions of officials and management regarding the internal control system and its importance to the entity





Internal Control Framework

Risk Assessment

Control Environment

Risk Assessment

Control Activities

Information and
Communication

Monitoring

Risk assessment is the process for identifying and assessing risks that could affect the achievement of objectives. A completed risk assessment forms the basis for determining how to manage and respond to risks.





Internal Control Framework

Control Activities

Control Environment

Risk Assessment

Control Activities

Information and
Communication

Monitoring

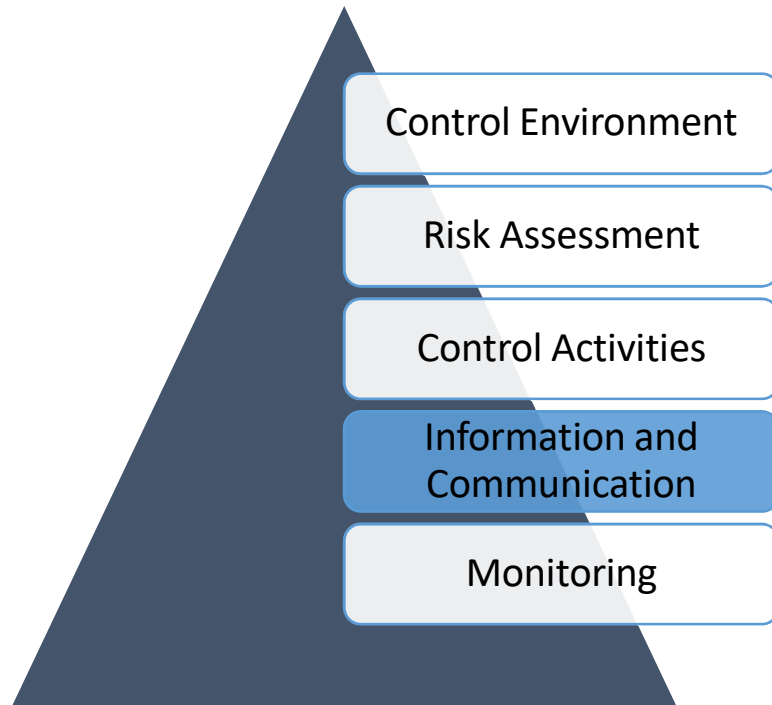
Actions put into place by management to
reduce risk





Internal Control Framework

Information and Communication



Information is data that is combined and summarized based on what is needed to support the internal control system.

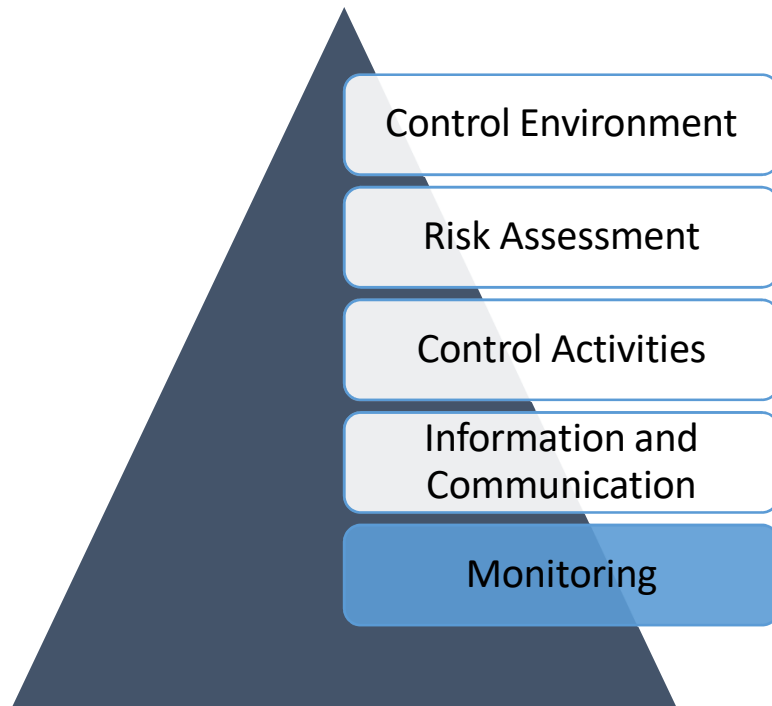
Communication enables the organization to share relevant and quality information internally and externally.





Internal Control Framework

Monitoring



Monitoring activities assess whether the five components on internal control and relevant principles are present and functioning. Monitoring is key to measuring the effectiveness of your system of internal control.





GASB Statements

- **Statement #84** – *Fiduciary Activities* (Effective for reporting periods beginning after **December 15, 2018**)
- **Statement #85** – *Omnibus 2017* (Effective for periods beginning after **June 15, 2017**)
- **Statement #86** – *Certain Debt Extinguishment Issues* (Effective for reporting periods beginning after **June 15, 2017**)
- **Statement #87** – *Leases* (Effective for reporting periods beginning after **December 15, 2019**)
- **Statement #88** – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (Effective for reporting periods beginning after **June 15, 2018**)
- **Statement #89** – *Accounting for Interest Cost Incurred before the End of a Construction Period* (Effective for reporting periods beginning **after December 15, 2019**)
- **Statement #90** – *Majority Equity Interests – An amendment of GASB Statements No. 14 and No. 61* (Effective for reporting periods beginning after **December 15, 2018**)





Auditing



Learning Objectives

Identify the objectives of a financial audit

Recall Generally Accepted Auditing Standards (GAAS)

Identify the components of auditors standard report

Recognize the types of audit opinions

Recall the requirements under Statement on Auditing Standards(SAS) 114 & 115





Learning Objectives

Define Audit Scope

Identify the types of governmental audits

Recognize U.S. Government Accountability Office (GAO)
Generally Accepted Government Auditing Standards (GAGAS)





Learning Objectives

Define the roles of the external auditor, management and the internal auditor

Recall independence standards and safeguards and distinguish between audit and non-audit services

Identify the requirements for a Single Audit





Objectives of a Financial Audit

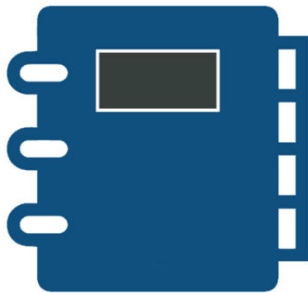
- Render an opinion by independent auditors expressing whether the Financial Statements **present fairly** the financial position, changes in financial position, and (where applicable) cash flows of the organization.
- Basically – an evaluation of the reliability of an entity's financial report.





Objectives of a Financial Audit

Concepts of Financial Audit



Fairly Presented – In conformity with appropriate Generally Accepted Accounting Principles (GAAP)

Provide Reasonable Assurance – **NOT** absolute assurance that they are free from error or fraud.

Materiality – Reasonable assurance that they are free of “material” misstatements





Generally Accepted Auditing Standards (GAAS)

Auditors performing financial statement audits (non issuers) follow GAAS, reflected in Statements of Auditing Standards (SAS) issued by the Auditing Standards Board of the **AICPA**

10 standards (expanded by more than 100 SASs)

- General Standards (3)
- Field Work Standards (3)
- Reporting Standards (4)





Generally Accepted Auditing Standards (GAAS)

General Standards (3)

- Adequate technical training & proficiency as an auditor
- Independence in mental attitude
- Due professional care

Government Auditing Standards – 2018 Revision

Expands the independence standard to state that “preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence”. The revision also states that “auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level — or decline to perform the services”.





Generally Accepted Auditing Standards (GAAS)

Standards of Field Work (3)

- Adequate planning & proper supervision
- Understand the Entity – Study & evaluation of internal control
- Sufficient competent evidential matter (basis of opinion)

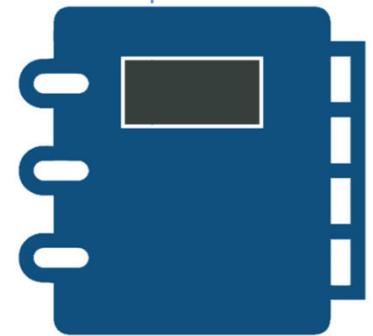




Generally Accepted Auditing Standards (GAAS)

Standards of Reporting (4)

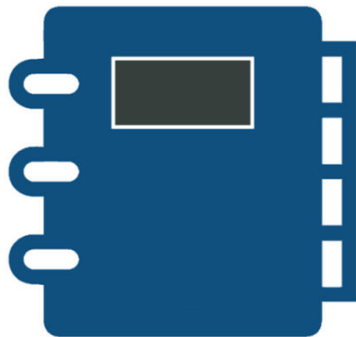
- State if financial statements are presented in accordance with GAAP
- GAAP consistently observed in current & preceding period
- Informative disclosures reasonably adequate
- Expression of opinion or reason why not





Auditors Standard Report

Paragraphs in a standard audit report:



Report on the Financial Statements

Management's Responsibility for the
Financial Statements

Auditor's Responsibilities

Opinions





Auditors Standard Report

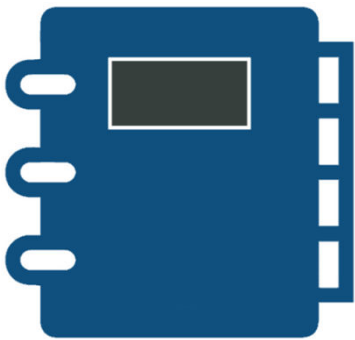
**Paragraphs in
a standard
audit report:**

Adoption of New Accounting Standards

Other Matters

Other Information

Other Legal or Regulatory Requirements





Types of Audit Opinions

Unmodified (clean)

- Financial statements present fairly, in all material respects, financial position & changes in position (and cash flows, if applicable) according to GAAP

Qualified opinion

- Financial Statements contain material departure from GAAP or there is a material change between periods in GAAP





Types of Audit Opinions



Adverse opinion

- Financial statements do not present fairly in conformity with GAAP

Disclaimer of opinion

- Auditor unable to obtain sufficient appropriate audit evidence on which to base the opinion
 - Often due to inability to examine records





Statement on Auditing Standards (SAS)

SAS 114 – Communicating with those charged with governance

- Auditor's responsibilities under GAAS
- Overview of planned scope & timing of audit
- Significant findings from the audit
 - Qualitative aspects of significant accounting policies
 - Significant difficulties
 - Material Misstatements (corrected and/or uncorrected)
 - Disagreements with management
 - Other significant issues discussed with management
- Auditor's choice (oral or written)





Statement on Auditing Standards (SAS)

SAS 115 – Communicating Internal Control Related Matters

- Definition of terms:
 - Control Deficiency
 - Significant deficiency (replaces reportable condition)
 - Material weakness
- Requires written communication of significant deficiencies and material weaknesses to management and those charged with governance





Statement on Auditing Standards (SAS)

SAS 115 – Communicating Internal Control Related Matters

- Definition of terms:
 - **Control deficiency**
 - A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.





Statement on Auditing Standards (SAS)

SAS 115 – Communicating Internal Control Related Matters



- Definition of terms:
 - **Significant deficiency**
 - A control deficiency, or combination of control deficiencies, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.





Statement on Auditing Standards (SAS)

SAS 115 – Communicating Internal Control Related Matters



- Definition of terms:
 - **Material weakness**
 - A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.





Audit Scope

Render an opinion:

- Basic Financial Statements
 - Includes notes

Typically – Render an opinion on fair presentation “in relation to” the basic financial statements:

- Combining statements
- Individual fund financial statements & schedules
- Other financial schedules





Audit Scope

Conduct limited procedures:

- Required Supplementary Information (RSI)
 - Management's Discussion & Analysis (MD&A)
 - Budgetary comparison schedules
 - Pension information
 - Modified approach information

Read for consistency:

- Introductory section (if ACFR prepared)
- Statistical section





Types of Governmental Audits

Financial

- Opinion as to whether Financial Statements are presented fairly, in all material respects, in conformity with GAAP





Types of Governmental Audits

Attestation engagement



- Examinations/procedures that lead to a report & assertion about subject matter that is the responsibility of another party
 - Internal controls
 - Compliance
 - MD&A
 - Contract amounts
 - Performance measures





Types of Governmental Audits

Performance

- Determination of whether managers are using resources efficiently & effectively in accomplishing organizational goals





External Auditor's Role

- Adhere to standards of ethics and performance
 - Independent in both fact and appearance
- Assures users of Financial Statements they are free of material misstatements
 - “Reasonable but not absolute assurance”
- May provide advice, research materials and recommendations to **assist** management in performing its functions and making decisions





Management's Role

Full responsibility

- Fair presentation of the Financial Statements
 - **Management** Discussion and Analysis (MD&A)
 - Accompanying notes
 - Required Supplementary Information (RSI)
 - Supplementary Information (SI)
- Completeness and reliability of all information supporting Financial Statement amounts
- Internal control structure





Management's Role

Monitoring & assessing internal controls

Audit process

- Select auditor
- Meet with auditor at entrance and exit conferences
- Respond to auditor questions in a timely manner
- Consider and implement as appropriate auditor recommendations





Internal Auditor's Role

- Integral part of internal control framework
 - Assess risk
 - Design, implement and monitor compensating controls
- Must be independent
- Accountable to top management





U.S. Government Accountability Office (GAO)

Establishes Generally Accepted Governmental Auditing Standards (GAGAS)

- Standards in **Yellow Book**
 - **Revised July 2018**
- Intended to supplement Generally Accepted Auditing Standards (GAAS) – from **AICPA**





Unique Aspects of GAGAS

Standard – professional proficiency

- Thorough knowledge of governmental auditing
 - Applies to all governmental auditors regardless of professional certifications
- At least 80 hours CPE every 2 years
 - At least 20 hours in each of the 2 years
 - At least 24 hours related directly to the audit environment





Independence Standards

- Independence is the cornerstone of the auditing profession and the second general standard in both the **AICPA's GAAS** and **GAO's GAGAS**



Government Auditing Standards – 2018 Revision

Expands the independence standard to state that “preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence”. The revision also states that “auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level — or decline to perform the services”.





Independence Standards

- **Non-audit services**
 - That is solely performed for the benefit of the entity requesting the work & does not provide for a basis for conclusions, recommendations, or opinions as would a financial audit, attestation engagement, or performance audit





GAO Independence Standards – Non-audit Services

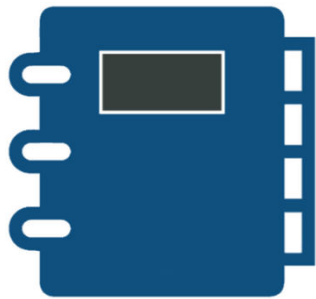
- **Two overarching principles**
 - **Auditors should not perform management functions** or make management decisions
 - Auditors **should not audit their own work** or provide non-audit services in situations when the non-audit services are **significant to the audit subject matter**
- Must be independent in both fact and appearance





GAO Independence Standards – Non-audit Services

Safeguards



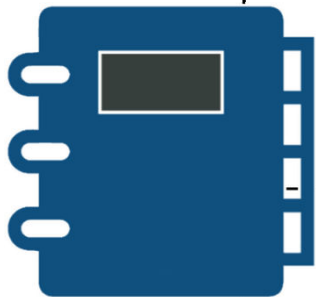
1. Preclude non-audit personnel from planning audit
2. Do not reduce audit scope
3. Document
 - Consideration of non-audit work
 - Understanding with client of objectives and scope of audit work





GAO Independence Standards – Non-audit Services

Safeguards



4. Include policies to ensure compliance with independence standards

- Independent in both fact and appearance

5. Avoid certain non-audit work

6. Make all documentation available for peer review





GAO Independence Standards – Non-audit Services

Acceptable – no safeguards needed

- Providing routine advice/methodologies
- Serving on advisory committees
- Answering technical questions
- Evaluate a program's efficiency
- Providing training

Prohibited

- Maintaining accounting records
- Posting transactions
- Recommending a single person for a position
- Supervising the information technology system
- Designing an internal control system





Preparation of Financial Statements

- **Allowed** non-audit service
- Generally creates **significant threats** to auditors' **independence**
- Auditors should
 - **Document** the **threats** and **safeguards applied**



“Preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence and auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level — or decline to perform the services” - Government Auditing Standards – 2018 Revision





GAO Independence Standards – Non-audit Services

Permitted

- Maintaining depreciation schedules
 - Management determines key elements in calculations
- Proposing adjusting and correction entries
 - Management chooses to accept





Single Audits

- Improve the efficiency and effectiveness of governmental audit effort
- **Single Audit Act of 1984**
 - Amended in 1996
 - Replaced multitude of grant-by-grant audits with single, comprehensive, entity-wide audit
 - Risk based approach
- Provide all federal awarding agencies a single report to satisfy program's audit requirements





Requirements for a Single Audit

Organizations that **expend** more than \$750,000 in federal financial assistance in a year

State and local governments, not-for-profit organization, including hospitals



- If expended only for one program or one program cluster, may have a **program audit**, otherwise the audit must be a **single audit**





Reporting Under the Single Audit

- ❑ Schedule of findings and questioned costs

Describes such matters as:

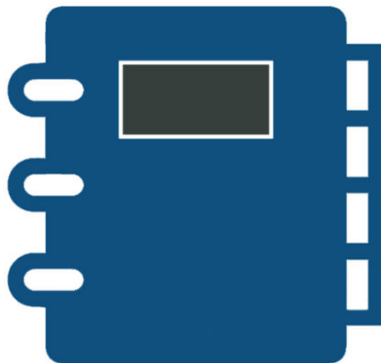
Internal Control weaknesses

Instances of noncompliance

Questioned costs

Fraud

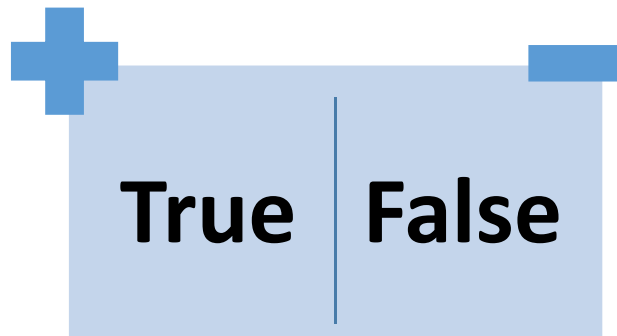
Material misrepresentations by the auditee





Review Questions

The Internal Auditor plays an integral part in the Internal Controls of an Organization.





State of Florida Laws and Regulations



Learning Objectives

Identify requirements of the Uniform Local Government Financial Management and Reporting Act

Recall the auditor selection procedures

Define the duties of the Auditor General and the Legislative Auditing Committee

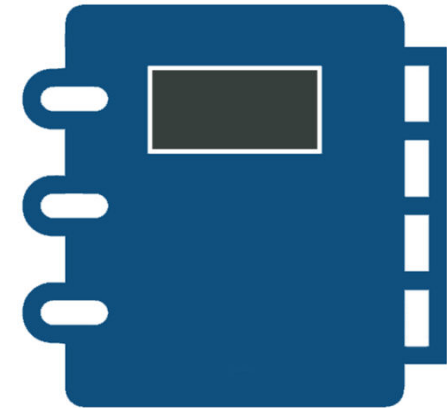
Identify the requirements of the Florida Single Audit Act





Overview

- ❑ **Chapter 218, F.S.** – Uniform Local Government Financial Management and Reporting Act
- ❑ **Section 11.45, F.S.** – Definitions; duties; authorities (Auditor General)
- ❑ **Section 11.40, F.S.** – Legislative Auditing Committee
- ❑ **Rules of the Auditor General** – Florida Single Audit Act – 10.556-10.557





Section 218.32, F.S. – Annual Financial Reports

- ❑ Counties, cities, and independent special districts are required to submit to the **Department of Financial Services (DFS)** a copy of its **Annual Financial Report (AFR)**
- ❑ AFR is due within 9 months after the end of the fiscal year for local governments not audited
- ❑ If the local government is audited pursuant to s. 218.39, F.S., a copy of the audit report, along with the AFR, is required to be submitted to DFS within 45 days after the audit is delivered to the entity's governing body, but no later than 9 months after fiscal year end



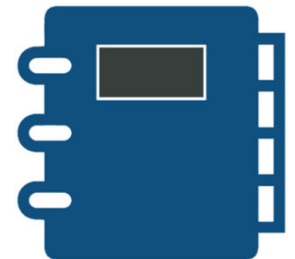


Section 218.39, F.S. – Annual Financial Audit Reports

Requires certain local governments (all counties, certain municipalities & special districts) to provide for an annual financial audit report

The Audit Report is due to the Auditor General within 45 days after the audit is delivered to the entity's governing body, but no later than 9 months after fiscal year end

Have 30 days to dispute audit finding





Section 218.39, F.S. – Annual Financial Audit Reports

- ☐ **UNLESS** the entity is notified by the first day of the fiscal year that the Auditor General will perform the audit

File with governing body

Written Statement of explanation/rebuttal of auditor's findings



Must be filed within 30 days





Section 218.503, F.S. – Financial Emergency

Local governmental entities and district school boards shall be subject to review and oversight by Governor/Commissioner of Education when **any one** of the following conditions occurs:

- Failure within the same fiscal year in which due:
 - To pay short-term loans
 - To make bond debt service or other long-term debt payments when due, as a result of lack of funds
 - To pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds





Section 218.503, F.S. – Financial Emergency

Failure to transfer at the appropriate time, due to the lack of funds:

- Taxes withheld on the income of employees **OR**
- Employer and employee contributions for:
 - Federal social security **OR**
 - Any pension, retirement or benefit plan of an employee

Failure for one pay period to pay, due to the lack of funds:

- Wages and salaries owed to employees **OR**
- Retirement benefits owed to former employees



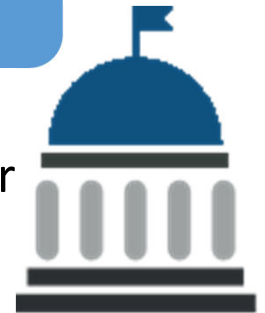


Section 218.503, F.S. – Financial Emergency

Local Government shall notify the Governor and Legislative Auditing Committee

District School Board shall notify the Commissioner of Education and Legislative Auditing Committee

- One or more of the specified conditions have occurred or will occur if action is not taken to assist the local governmental entity or district school board.
- In addition, any state agency must, within 30 days after the determination that one or more of the specified conditions have occurred or will occur (if action is not taken), notify Governor/Commissioner of Education and Legislative Auditing Committee





Section 218.503, F.S. – Financial Emergency

Governor/Commissioner of Education shall determine if state assistance is needed

- If state assistance is needed – Local government is considered to be in a state of financial emergency

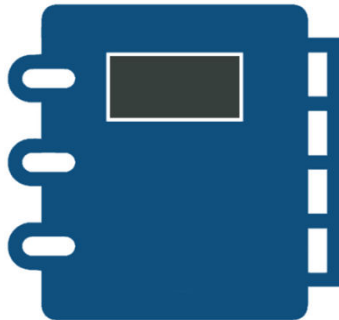
Governor/Commissioner of Education has authority to implement measures to assist the local government in resolving the financial emergency





Section 218.503, F.S. – Financial Emergency

Measures



Require budget approval by
Governor/Commissioner

Authorize state loan and provide for
repayment of the same

Prohibit local government from issuing
bonds, notes, etc.

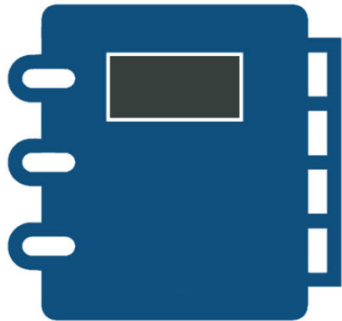
Inspect/review records, reports, and assets





Section 218.503, F.S. – Financial Emergency

Measures



Consult with officials and local government auditors regarding steps necessary to bring the books of account, accounting systems, financial procedures, and reports into compliance with state requirements

Provide technical assistance

Establish financial emergency oversight board to oversee local government's activities





Section 218.391, F.S. – Auditor Selection Procedures

- ❑ Non-Chartered Counties and School Districts **shall** use the selection process outlined in **s. 218.391, F.S.**, which includes:
 - Membership of selection committee
 - Interviewing firms qualified by law
 - Committee meetings are open to the public
 - Factors to consider in auditor selection
- ❑ Cities and Chartered Counties can use their own procedures





Section 218.391, F.S. – Auditor Selection Procedures

Governing body shall establish an auditor selection committee

- Auditor selection committee (for Counties) shall consist of:
 - County officers AND
 - One member of the Board or its designee



Purpose of committee and procedures is to contract with an auditor to conduct the annual financial audit required by s. 218.39, F.S.





Section 218.391, F.S. – Auditor Selection Procedures

Committee shall publicly announce, in a uniform and consistent manner, each occasion when auditing services are required to be purchased

- Public notice **must**
 - Include general description of the audit
 - Indicate how interested CPAs can apply for consideration





Section 218.391, F.S. – Auditor Selection Procedures

- ❑ Committee shall encourage firms who desire to provide professional services to submit annually a statement of qualifications and performance data
- ❑ Any **CPA** desiring to provide auditing services shall first be qualified pursuant to law
 - Committee shall make a finding that firm or individual to be engaged is fully qualified to render the required services
 - Factors to be considered in making this finding:
 - Capabilities
 - Adequacy of personnel
 - Past record





Section 218.391, F.S. – Auditor Selection Procedures

Committee shall adopt procedures for the evaluation of professional services as may be determined by the committee to be applicable to its particular requirements:



Capabilities

Adequacy of personnel

Past record

Experience

Results of recent external quality control reviews

Other factors





Section 11.45, F.S. – Definitions, Duties, etc.

Governmental entity

- State/county agency or any other entity, however styled, that independently exercises any type of state or local governmental function

Local governmental entity

- County agency, municipality or special district as defined in s. 189.012, F.S.
- Does not include any housing authority established under ch. 421, F.S.



Management letter

- Statement of the auditor's comments and recommendations





Section 11.45, F.S. – Definitions, Duties, etc.

Governmental entity

- State/county agency or any other entity, however styled, that independently exercises any type of state or local governmental function





Section 11.45, F.S. – Definitions, Duties, etc.

Local governmental entity



- County agency, municipality, or special district as defined in s. 189.012, F.S.
- Does not include any housing authority established under ch. 421, F.S.





Section 11.45, F.S. – Definitions, Duties, etc.

Management letter

- Statement of the auditor's comments and recommendations





Section 11.45, F.S. – Definitions, Duties, etc.

Audit

- A financial, operational, or performance audit





Section 11.45, F.S. – Definitions, Duties, etc.

County agency

- Board of county commissioners, however styled
 - Consolidated or metropolitan government
- Clerk of the Circuit Court
 - Separate or ex officio Clerk of the County Court
- Sheriff
- Property appraiser
- Tax collector
- Supervisor of elections
- Any other officer





Section 11.45, F.S. – Definitions, Duties, etc.

Financial Audit

Examination of Financial Statements in order to express an opinion on the fairness with which they are presented in conformity with GAAP and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements



Financial audits must be conducted in accordance with GAAS and GAGAS as adopted by the Board of Accountancy





Section 11.45, F.S. – Definitions, Duties, etc.

Operational audit

- **Financial-related audit whose purpose is to:**
 - Evaluate management's performance in administering assigned responsibilities in accordance with applicable laws, administrative rules, and other guidelines
 - Determine the extent to which Internal Controls, as designed and placed in operation, promotes and encourages achievement of management's control objectives in the categories of:
 - **Compliance**
 - **Economic and efficient operations**
 - **Reliability of financial records and reports**
 - **Safeguarding of assets**





Section 11.45, F.S. – Definitions, Duties, etc.

Performance audit

- Examination of a program, activity, or function of a governmental entity
- Conducted in accordance with applicable government auditing standards or auditing and evaluation standards of other appropriate authoritative bodies





Section 11.45, F.S. – Auditor General Duties

Conduct audits and perform related duties as prescribed by law or as directed by the **Legislative Auditing Committee**

Annually conduct

- A financial audit of:
 - State government AND
 - All universities and district boards of trustees of community colleges
- Financial audits of all district school boards (counties with a population < 150,000)
- Audit of Wireless Emergency Telephone System Fund
- Audit of Florida School for the Deaf and the Blind





Section 11.45, F.S. – Auditor General Duties

At least every 3 years

- **Conduct operational audits of state agencies and universities**
 - In connection with these audits, the Auditor General shall give appropriate consideration to reports issued by state agencies' inspectors general or universities' inspectors general and resolution of findings therein.





Section 11.45, F.S. – Auditor General Duties

At least every 3 years



- **Conduct a performance audit of the local government financial reporting system**
 - Purpose
 - To determine accuracy, efficiency and effectiveness of reporting system in achieving its goals
 - To make recommendations to local governments, the Governor and Legislature
 - How reporting system can be improved
 - How program costs can be reduced





Section 11.45, F.S. – Auditor General Duties.

Once every 3 years

- Conduct performance audits of the Department of Revenue's administration of ad valorem tax laws
- Conduct financial audits of all district school boards in counties > 150,000 or more population
- Review a sample of each state agency's internal audit reports to determine compliance with current Standards for the Professional Practice of Internal Auditing or, if appropriate, government auditing standards





Section 11.45, F.S. – Auditor General Duties

Conduct audits of local governments when:

- Determined to be necessary by Auditor General
- Directed by Legislative Auditing Committee
- Otherwise required by law





Section 11.45, F.S. – Auditor General Duties

No later than 18 months after a report's release, the Auditor General shall perform such appropriate follow-up procedures to determine an audited entity's progress in addressing the findings and recommendations

- The Auditor General shall provide copy of the determination to each member of audited entity's governing body and to the Legislative Auditing Committee





Section 11.45, F.S. – Auditor General Duties

Conduct other audits



Any governmental entity created or established by law

Technology programs, activities, functions, or systems of any governmental entity created or established by law

Accounts and records of any charter school created or established by law

Many others





Section 11.45, F.S. – Auditor General Duties

Scheduling and Staffing

- Made and completed within not more than 9 months following end of fiscal year or at such lesser time which may be provided by law, etc.
- When Auditor General determines conducting any audit or engagement otherwise required by law would not be possible due to workload or would not be an efficient or effective use of resources based on an assessment of risk
 - **Auditor General may temporarily/indefinitely postpone for such period/any portion thereof, unless otherwise directed by Legislative Auditing Committee**





Section 11.45, F.S. – Auditor General Duties

Request by a Local Government for an audit by the Auditor General

- Expenses paid by the Local Government
 - The Auditor General shall estimate the cost
 - 50% of the estimate paid by the Local Government before the start of the audit
- At completion, the Auditor General shall notify the Local Government of the actual cost
 - The Local Government pays the remainder of the audit cost to the Auditor General





Section 11.45, F.S. – Auditor General Duties

Auditor General Notification

- If at the conclusion of the audit and notification of the cost, the Local Government **FAILS TO COMPLY** and remit remainder of the cost to the Auditor General
- Auditor General **shall** notify the Legislative Auditing Committee, Department of Financial Services, or the Division of Bond Finance of the State Board of Administration of the **failure to comply**, resulting in a possible hearing
 - **Hearing scheduled** – Legislative Auditing Committee **shall** determine if the Local Government should be subject to further state action
 - Withhold any non-pledged funds payable to the Local Government until it complies with the law





Section 11.40, F.S., and Joint Rule 4 Legislative Auditing Committee

Standing joint committee

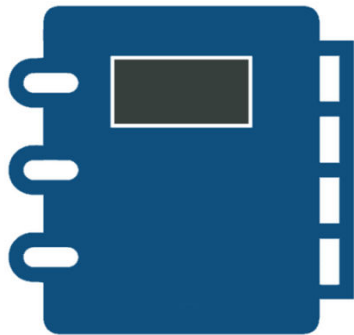
- Currently 11 members
- (5 Senators, 6 Representatives)
- 5-7 members of each house
 - Appointed by the President of the Senate & Speaker of the House of Representatives
- Terms = 2 Years
- Run from organization of one Legislature to the organization of the next Legislature





Rules of the Auditor General Florida Single Audit Act –10.556

Rules of the Auditor General



- Similar to Financial Statement audit definitions, etc.
- Scope shall also include additional activities necessary to establish compliance with “financial statement audit” as defined and used
- When applicable, scope shall encompass additional activities necessary to establish compliance with:
 - **Uniform Grant Guidance (UGG)**
 - **Florida Single Audit Act**





Rules of the Auditor General Florida Single Audit Act –10.556

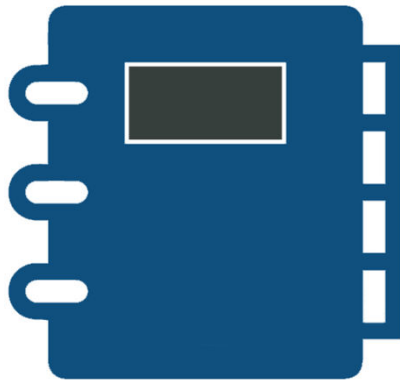
- ❑ Scope of the audit shall include the use of financial condition assessment procedures to assist the auditor in detecting deteriorating financial conditions
- ❑ Auditor may use the financial condition assessment procedures developed by the Auditor General or appropriate alternative
- ❑ Financial condition assessment shall be done as of the **Fiscal Year End (annual basis)**
 - Give consideration to subsequent events that could significantly impact financial condition





Rules of the Auditor General Florida Single Audit Act –10.557(3)(e)

Report to include:



Schedule of expenditures of State financial assistance

Opinion (fairly presented)

Report on compliance and internal control

Schedule of findings & questioned costs

Summary of prior audit findings (if needed)

Corrective action plan





Annual Comprehensive Financial Report (ACFR)



Learning Objectives

Recall the primary users of the Annual Comprehensive Financial Report

Identify components of the report

Recognize the requirements of the Government Finance Officers Association awards program





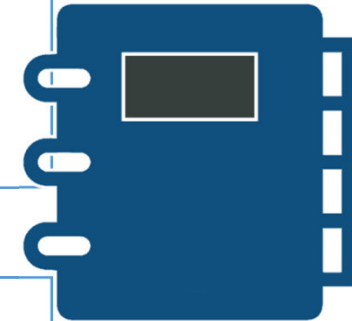
Annual Comprehensive Financial Report

GASB Recommends:

- Every governmental entity should prepare and publish, as a matter of public record, an **Annual Comprehensive Financial Report (ACFR)** that encompasses all funds and account groups of the primary government (including its blended component units).

Recommended for GAAP – required for ACFR

- Combining and individual fund statements and schedules





Annual Comprehensive Financial Report

ACFR is designed to serve the needs of primary users (e.g., citizens, investors/creditors, Legislative bodies) of external financial reports identified in GASB Concepts Statement No. 1, **“Objectives of Financial Reporting”**



Required sections are:

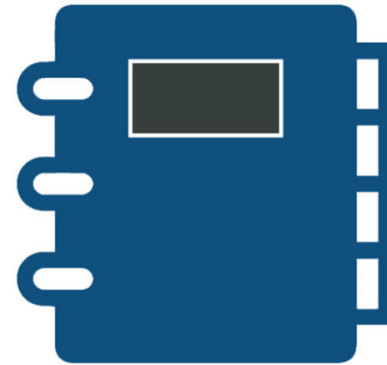
- Introductory Section
- Financial Section
- Statistical Section





Annual Comprehensive Financial Report

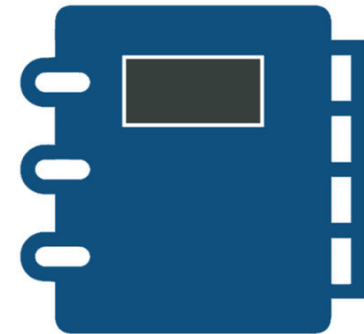
- ☐ Introductory Section
 - Not GAAP
- ☐ Financial Section
- ☐ Statistical Section
 - GASB Statement No. 44
 - Not REQUIRED by GAAP
- ☐ Other Sections
 - If needed – Compliance Section





Introductory Section

- ❑ Proceeding the **Introductory Section** are:
 - Cover, Title Page, and Table of Contents
- ❑ **Introductory Section:**
 - Letter of Transmittal
 - List of principal officers
 - Organization Chart
 - Certificate of Achievement (prior year)





Introductory Section

Letter of Transmittal (Four sections)



Profile of the government

Information useful in assessing economic condition

Method to present information not suitable for inclusion in **MD&A**

Awards and Acknowledgements

*Do NOT duplicate information from MD&A

*Can refer to/expand discussion of MD&A





Introductory Section

Letter of Transmittal

- Formal transmittal of the ACFR
- Signed
 - Chief Financial Officer and Chief Executive Officer/Chief Operating Officer (ideal)
 - May be signed by CFO (lowest signature level allowed)
- Dated on or after the auditor's report date





Introductory Section

Additional Information



- List of elected/appointed officials
- Organization Chart of the government
- Certificate of Achievement for Excellence in Financial Reporting
 - Prior Year Certificate
 - Use narrative provided by GFOA
 - Indicate number of years award has been received





Financial Section



Auditor report (opinion letter)

MD&A

Basic Financial Statements

- Government-wide
- Fund level
- Notes

Required Supplementary Information (RSI) other than MD&A, including the budgetary comparison schedule

Above are required by GAAP





Financial Section

**Not
required
by GAAP**

Combining and individual fund
financial statements



Primary government and
component units





Financial Section

Government-wide Financial Statements

- **Report primary government's financial information for:**
 - Governmental activities
 - Business-type activities
- **Required statements**
 - Statement of Net Position
 - Statement of Activities
- Fiduciary activities excluded



Biggest Mistake Made – Calculation of “Net Investment in Capital Assets”





Financial Section

Fund level financial statements



- Focus on major and non-major funds in aggregate
- Measurement focus and basis of accounting based on fund type
 - **Governmental** – financial resources and modified accrual
 - Fiscal accountability
 - **Proprietary** – economic resources and full accrual
 - Operational accountability
 - **Fiduciary** – economic resources and full accrual





Statistical Section

**Present information on economic condition of
Primary Government**

GAAP must be followed:

- Specific areas addressed
- Specific information required
- Specific time periods covered
 - Since GASB 34 implementation
 - 10 years history is target for most items





Statistical Section

Required:

Financial trends information

Show financial condition over time

Revenue capacity information

Show revenue sources

Ability to generate own revenue



Debt capacity information

Show debt burden

Show ability to issue additional debt





Statistical Section

Required:

Demographic and economic information

- Aid in understanding the environment within which the financial activities take place
 - Principal taxpayers, population, etc.

Operating information

- How does the government operate?
- What are its resources?
- What is the context for understanding and assessing its economic condition?





Government Finance Officers Association Award Program(s)



GFOA Award Program

- ❑ Financial statement related
 - Certificate of Achievement for Excellence in Financial Reporting Program
 - Popular Annual Financial Reporting Program
- ❑ Specific and detailed checklists to ensure completeness
- ❑ Judged by “eligible” people across the nation
 - Reviewers never from same state as applicant
 - Reviewers never from same firm that audited applicant





GFOA Award Program

**Certificate of
Achievement for
Excellence in
Financial Reporting
Program**



Established in **1945**
by the Government
Finance Officers
Association (GFOA)

Encourage and assist
governments to go
beyond minimum
GAAP requirements

Spirit of transparency
and full disclosure





GFOA Award Program

Certificate of Achievement for Excellence in Financial Reporting Program

- **Reports submitted are reviewed by:**
 - Selected members of GFOA professional staff
 - GFOA Special Review Committee (SRC)
 - Individuals with expertise in public-sector financial reporting
 - Includes Financial Statement preparers, independent auditors, academics, and other finance professionals

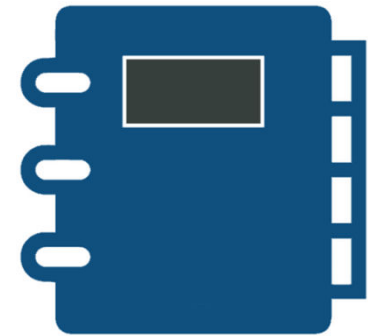




Popular Annual Financial Report

Popular Annual Financial Report (PAFR)

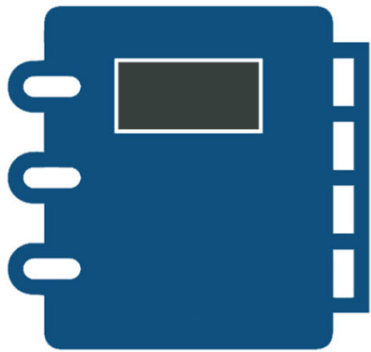
- Developed because many accounting professionals, politicians and others believe current governmental financial statements are:
 - Excessively complex **AND**
 - Not understandable except to those knowledgeable about governmental accounting





Popular Annual Financial Report

Popular Annual Financial Report (PAFR)



- Some governments issue popular reports
 - Simplified, summary type reports
 - Graphical presentation used to a greater extent than traditional financial statements
- GFOA offers a PAFR Award Program
 - Have to also issue a ACFR to participate





Source Materials



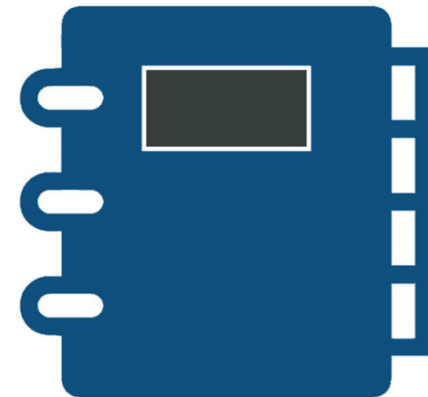
Source Material – Florida Statutes

❑ **Chapter 218 – Financial Matters**

Pertaining to Political Subdivisions

- **218.32** – Annual financial reports; local governmental entities
- **218.39** – Annual financial audit reports
- **218.391** – Auditor selection procedures
- **218.503** – Determination of financial emergency

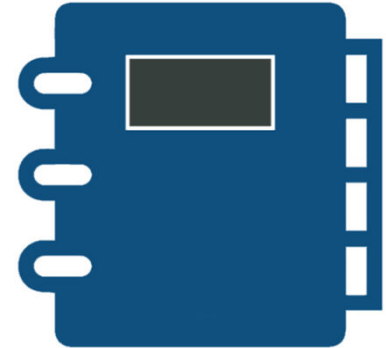
❑ **11.45 – The Auditor General – Definitions; duties; authorities; reports; rules**





Other Sources

- ❑ **Rules of the Auditor General** (Chapters 10.556 and 10.557)
- ❑ **Government Auditing Standards** (all chapters)
- ❑ **Yellow Book** (Specifically Chapter 3 – General Standards)



GFOA Publications

- Debt Issuance and Management – A Guide for Smaller Governments
- Public Policy Statements – Accounting, Auditing and Financial Reporting
- Recommended Practices – Accounting, Auditing and Financial Reporting

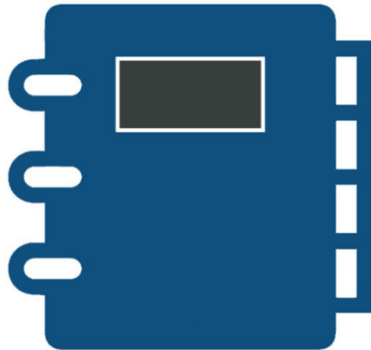




Source Links

Florida Statutes

<http://www.leg.state.fl.us/>



Rules of the Auditor General

<https://flauditor.gov/pages/rules.html>

Recommended Practices – Accounting, Auditing & Financial Reporting – GFOA

<http://www.gfoa.org/services/rp/caafr.shtml>

Public Policy Statements – Accounting, Auditing and Financial Reporting – GFOA

<http://www.gfoa.org/services/policy/gfoapp1.shtml>





Source Materials - GAAP

Governmental Accounting, Auditing, and Financial Reporting (GFOA Publication)



- 2012 Edition
 - All chapters
 - GAAFR Update Supplement, 2014 Edition





Florida Government Finance Officers Association

Questions?



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



Florida Government Finance Officers Association

Thank You!



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



Florida Statutes

FLORIDA GOVERNMENT FINANCE OFFICERS ASSOCIATION

CERTIFIED GOVERNMENT FINANCE OFFICERS EXAM

REFERENCE MATERIALS GUIDE

ACCOUNTING AND FINANCIAL REPORTING

FLORIDA STATUTES REFERENCES

11.40 Legislative Auditing Committee.—Florida Statutes

(1) The Legislative Auditing Committee may take under investigation any matter within the scope of an audit, review, or examination either completed or then being conducted by the Auditor General or the Office of Program Policy Analysis and Government Accountability, and, in connection with such investigation, may exercise the powers of subpoena by law vested in a standing committee of the Legislature.

(2) Following notification by the Auditor General, the Department of Financial Services, or the Division of Bond Finance of the State Board of Administration of the failure of a local governmental entity, district school board, charter school, or charter technical career center to comply with the applicable provisions within s. 11.45(5)-(7), s. 218.32(1), s. 218.38, or s. 218.503(3), the Legislative Auditing Committee may schedule a hearing to determine if the entity should be subject to further state action. If the committee determines that the entity should be subject to further state action, the committee shall:

(a) In the case of a local governmental entity or district school board, direct the Department of Revenue and the Department of Financial Services to withhold any funds not pledged for bond debt service satisfaction which are payable to such entity until the entity complies with the law. The committee shall specify the date such action shall begin, and the directive must be received by the Department of Revenue and the Department of Financial Services 30 days before the date of the distribution mandated by law. The Department of Revenue and the Department of Financial Services may implement the provisions of this paragraph.

(b) In the case of a special district created by:

1. A special act, notify the President of the Senate, the Speaker of the House of Representatives, the standing committees of the Senate and the House of Representatives charged with special district oversight as determined by the presiding officers of each respective chamber, the legislators who represent a portion of the geographical jurisdiction of the special district, and the Department of Economic Opportunity that the special district has failed to comply with the law. Upon receipt of notification, the Department of Economic Opportunity shall proceed pursuant to s. 189.062 or s. 189.067. If the special district remains in noncompliance after the process set forth in s. 189.0651, or if a public hearing is not held, the Legislative Auditing Committee may request the department to proceed pursuant to s. 189.067(3).

2. A local ordinance, notify the chair or equivalent of the local general-purpose government pursuant to s. 189.0652 and the Department of Economic Opportunity that the special district has failed to comply with the law. Upon receipt of notification, the department shall proceed pursuant to s. 189.062 or s. 189.067. If the special district remains in noncompliance after the process set forth in s. 189.0652, or if a public hearing is not held, the Legislative Auditing Committee may request the department to proceed pursuant to s. 189.067(3).

3. Any manner other than a special act or local ordinance, notify the Department of Economic Opportunity that the special district has failed to comply with the law. Upon receipt of notification, the department shall proceed pursuant to s. 189.062 or s. 189.067(3).

(c) In the case of a charter school or charter technical career center, notify the appropriate sponsoring entity, which may terminate the charter pursuant to ss. 1002.33 and 1002.34.

(3)(a) As used in this subsection, "independent contract auditor" means a state-licensed certified public accountant or firm with which a state-licensed certified public accountant is currently employed or associated who is actively engaged in the accounting profession.

(b) Audits specified in this subsection cover the quarterly compensation reports for the previous calendar year for a random sample of 3 percent of all legislative branch lobbying firms and a random sample of 3 percent of all executive branch lobbying firms calculated using as the total number of such lobbying firms those filing a compensation report for the preceding calendar year. The committee shall provide for a system of random selection of the lobbying firms to be audited.

(c) The committee shall create and maintain a list of not less than 10 independent contract auditors approved to conduct the required audits. Each lobbying firm selected for audit in the random audit process may designate one of the independent contract auditors from the committee's approved list. Upon failure for any reason of a lobbying firm selected in the random selection process to designate an independent contract auditor from the committee's list within 30 calendar days after being notified by the committee of its selection, the committee shall assign one of the available independent contract auditors from the approved list to perform the required audit. No independent contract auditor, whether designated by the lobbying firm or by the committee, may perform the audit of a lobbying firm where the auditor and lobbying firm have ever had a direct personal relationship or any professional accounting, auditing, tax advisory, or tax preparing relationship with each other. The committee shall obtain a written, sworn certification subject to s. 837.06, both from the randomly selected lobbying firm and from the proposed independent contract auditor, that no such relationship has ever existed.

(d) Each independent contract auditor shall be engaged by and compensated solely by the state for the work performed in accomplishing an audit under this subsection.

(e) Any violations of law, deficiencies, or material misstatements discovered and noted in an audit report shall be clearly identified in the audit report and be determined under the rules of either house of the Legislature or under the joint rules, as applicable.

(f) If any lobbying firm fails to give full, frank, and prompt cooperation and access to books, records, and associated backup documents as requested in writing by the auditor, that failure shall be clearly noted by the independent contract auditor in the report of audit.

(g) The committee shall establish procedures for the selection of independent contract auditors desiring to enter into audit contracts pursuant to this subsection. Such procedures shall include, but not be limited to, a rating system that takes into account pertinent information, including the independent contract auditor's fee proposals for participating in the process. All contracts under this subsection between an independent contract auditor and the Speaker of the House of Representatives and the President of the Senate shall be terminable by either party at any time upon written notice to the other, and such contracts may contain such other terms and conditions as the Speaker of the House of Representatives and the President of the Senate deem appropriate under the circumstances.

(h) The committee shall adopt guidelines that govern random audits and field investigations conducted pursuant to this subsection. The guidelines shall ensure that similarly situated compensation reports are audited in a uniform manner. The guidelines shall also be formulated to encourage compliance and detect violations of the legislative and executive lobbying compensation reporting requirements in ss. 11.045 and 112.3215 and to ensure that each audit is conducted with maximum efficiency in a cost-effective manner. In adopting the guidelines, the committee shall consider relevant guidelines and standards of the American Institute of Certified Public Accountants to the extent that such guidelines and standards are applicable and consistent with the purposes set forth in this subsection.

(i) All audit reports of legislative lobbying firms shall, upon completion by an independent contract auditor, be delivered to the President of the Senate and the Speaker of the House of Representatives for their respective review and handling. All audit reports of executive branch lobbyists, upon completion by an independent contract auditor, shall be delivered by the auditor to the Commission on Ethics.

History.—s. 1, ch. 67-470; s. 1, ch. 69-82; s. 1, ch. 73-6; s. 18, ch. 95-147; s. 21, ch. 96-318; s. 13, ch. 2001-266; s. 879, ch. 2002-387; s. 5, ch. 2003-261; s. 1, ch. 2004-5; s. 1, ch. 2004-305; s. 4, ch. 2005-359; s. 1, ch. 2009-74; s. 12, ch. 2011-34; s. 11, ch. 2011-52; s. 35, ch. 2011-142; s. 1, ch. 2011-144; s. 2, ch. 2014-22; s. 1, ch. 2016-22.

Note.—Former s. 11.181.

The Auditor General- Florida Statutes 11.45

11.45 Definitions; duties; authorities; reports; rules.—

(1) DEFINITIONS.—As used in ss. 11.40-11.51, the term:

(a) “Audit” means a financial audit, operational audit, or performance audit.

(b) “County agency” means a board of county commissioners or other legislative and governing body of a county, however styled, including that of a consolidated or metropolitan government, a clerk of the circuit court, a separate or ex officio clerk of the county court, a sheriff, a property appraiser, a tax collector, a supervisor of elections, or any other officer in whom any portion of the fiscal duties of the above are under law separately placed.

(c) “Financial audit” means an examination of financial statements in order to express an opinion on the fairness with which they are presented in conformity with generally accepted accounting principles and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements. Financial audits must be conducted in accordance with auditing standards generally accepted in the United States and government auditing standards as adopted by the Board of Accountancy. When applicable, the scope of financial audits shall encompass the additional activities necessary to establish compliance with the Single Audit Act Amendments of 1996, 31 U.S.C. ss. 7501-7507, and other applicable federal law.

(d) “Governmental entity” means a state agency, a county agency, or any other entity, however styled, that independently exercises any type of state or local governmental function.

(e) “Local governmental entity” means a county agency, municipality, or special district as defined in s. 189.012, but does not include any housing authority established under chapter 421.

(f) “Management letter” means a statement of the auditor’s comments and recommendations.

(g) “Operational audit” means an audit whose purpose is to evaluate management’s performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines. Operational audits must be conducted in accordance with government auditing standards. Such audits examine internal controls that are designed and placed in operation to promote and encourage the achievement of management’s control objectives in the categories of compliance, economic and efficient operations, reliability of financial records and reports, and safeguarding of assets, and identify weaknesses in those internal controls.

(h) “Performance audit” means an examination of a program, activity, or function of a governmental entity, conducted in accordance with applicable government auditing standards or auditing and evaluation standards of other appropriate authoritative bodies. The term includes an examination of issues related to:

1. Economy, efficiency, or effectiveness of the program.
2. Structure or design of the program to accomplish its goals and objectives.
3. Adequacy of the program to meet the needs identified by the Legislature or governing body.
4. Alternative methods of providing program services or products.
5. Goals, objectives, and performance measures used by the agency to monitor and report program accomplishments.
6. The accuracy or adequacy of public documents, reports, or requests prepared under the program by state agencies.
7. Compliance of the program with appropriate policies, rules, or laws.
8. Any other issues related to governmental entities as directed by the Legislative Auditing Committee.

(i) "Political subdivision" means a separate agency or unit of local government created or established by law and includes, but is not limited to, the following and the officers thereof: authority, board, branch, bureau, city, commission, consolidated government, county, department, district, institution, metropolitan government, municipality, office, officer, public corporation, town, or village.

(j) "State agency" means a separate agency or unit of state government created or established by law and includes, but is not limited to, the following and the officers thereof: authority, board, branch, bureau, commission, department, division, institution, office, officer, or public corporation, as the case may be, except any such agency or unit within the legislative branch of state government other than the Florida Public Service Commission.

¹(2) DUTIES.—The Auditor General shall:

- (a) Conduct audits of records and perform related duties as prescribed by law, concurrent resolution of the Legislature, or as directed by the Legislative Auditing Committee.
- (b) Annually conduct a financial audit of state government.
- (c) Annually conduct financial audits of all state universities and state colleges.
- (d) Annually conduct financial audits of the accounts and records of all district school boards in counties with populations of fewer than 150,000, according to the most recent federal decennial statewide census, and the Florida School for the Deaf and the Blind.
- (e) Once every 3 years, conduct financial audits of the accounts and records of all district school boards in counties that have populations of 150,000 or more, according to the most recent federal decennial statewide census.
- (f) At least every 3 years, conduct operational audits of the accounts and records of state agencies, state universities, state colleges, district school boards, the Florida Clerks of Court Operations Corporation, water management districts, and the Florida School for the Deaf and the Blind.
- (g) At least every 3 years, conduct a performance audit of the local government financial reporting system, which, for the purpose of this chapter, means any statutory provision

related to local government financial reporting. The purpose of such an audit is to determine the accuracy, efficiency, and effectiveness of the reporting system in achieving its goals and to make recommendations to the local governments, the Governor, and the Legislature as to how the reporting system can be improved and how program costs can be reduced. The Auditor General shall determine the scope of the audits. The local government financial reporting system should provide for the timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by the members of the Legislature and other appropriate officials to accomplish the following goals:

1. Enhance citizen participation in local government;
2. Improve the financial condition of local governments;
3. Provide essential government services in an efficient and effective manner; and
4. Improve decision making on the part of the Legislature, state agencies, and local government officials on matters relating to local government.

(h) At least every 3 years, conduct a performance audit of the Department of Revenue's administration of the ad valorem tax laws as described in s. 195.096. The audit report shall report on the activities of the ad valorem tax program of the Department of Revenue related to the ad valorem tax rolls. The Auditor General shall include, for at least four counties reviewed, findings as to the accuracy of assessment procedures, projections, and computations made by the department, using the same generally accepted appraisal standards and procedures to which the department and the property appraisers are required to adhere. However, the report may not include any findings or statistics related to any ad valorem tax roll that is in litigation between the state and county officials at the time the report is issued.

(i) Once every 3 years, review a sample of internal audit reports at each state agency, as defined in s. 20.055(1), to determine compliance with current Standards for the Professional Practice of Internal Auditing or, if appropriate, government auditing standards.

(j) Conduct audits of local governmental entities when determined to be necessary by the Auditor General, when directed by the Legislative Auditing Committee, or when otherwise required by law. No later than 18 months after the release of the audit report, the Auditor General shall perform such appropriate follow-up procedures as he or she deems necessary to determine the audited entity's progress in addressing the findings and recommendations contained within the Auditor General's previous report. The Auditor General shall notify each member of the audited entity's governing body and the Legislative Auditing Committee of the results of his or her determination.

(k) Annually conduct operational audits of the accounts and records of eligible nonprofit scholarship-funding organizations receiving eligible contributions under s. 1002.395, including any contracts for services with related entities, to determine compliance with the provisions of that section. Such audits shall include, but not be limited to, a determination of the eligible nonprofit scholarship-funding organization's compliance with s. 1002.395(6)(j). The Auditor General shall provide its report on the results of the audits to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Chief Financial Officer, and the Legislative Auditing Committee, within 30 days of completion of the audit.

The Auditor General shall perform his or her duties independently but under the general policies established by the Legislative Auditing Committee. This subsection does not limit the Auditor General's discretionary authority to conduct other audits or engagements of governmental entities as authorized in subsection (3).

(3) **AUTHORITY FOR AUDITS AND OTHER ENGAGEMENTS.**—The Auditor General may, pursuant to his or her own authority, or at the direction of the Legislative Auditing Committee, conduct audits or other engagements as determined appropriate by the Auditor General of:

- (a) The accounts and records of any governmental entity created or established by law.
- (b) The information technology programs, activities, functions, or systems of any governmental entity created or established by law.
- (c) The accounts and records of any charter school created or established by law.
- (d) The accounts and records of any direct-support organization or citizen support organization created or established by law. The Auditor General is authorized to require and receive any records from the direct-support organization or citizen support organization, or from its independent auditor.
- (e) The public records associated with any appropriation made by the Legislature to a nongovernmental agency, corporation, or person. All records of a nongovernmental agency, corporation, or person with respect to the receipt and expenditure of such an appropriation shall be public records and shall be treated in the same manner as other public records are under general law.
- (f) State financial assistance provided to any non-state entity as defined by s. 215.97.
- (g) The Tobacco Settlement Financing Corporation created pursuant to s. 215.56005.
- (h) Any purchases of federal surplus lands for use as sites for correctional facilities as described in s. 253.037.
- (i) Enterprise Florida, Inc., including any of its boards, advisory committees, or similar groups created by Enterprise Florida, Inc., and programs. The audit report may not reveal the identity of any person who has anonymously made a donation to Enterprise Florida, Inc., pursuant to this paragraph. The identity of a donor or prospective donor to Enterprise Florida, Inc., who desires to remain anonymous and all information identifying such donor or prospective donor are confidential and exempt from the provisions of s. 119.07(1) and s. 24(a), Art. I of the State Constitution. Such anonymity shall be maintained in the auditor's report.
- (j) The Florida Development Finance Corporation or the capital development board or the programs or entities created by the board. The audit or report may not reveal the identity of any person who has anonymously made a donation to the board pursuant to this paragraph. The identity of a donor or prospective donor to the board who desires to remain anonymous and all information identifying such donor or prospective donor are confidential and exempt from the provisions of s. 119.07(1) and s. 24(a), Art. I of the State Constitution. Such anonymity shall be maintained in the auditor's report.

(k) The records pertaining to the use of funds from voluntary contributions on a motor vehicle registration application or on a driver license application authorized pursuant to ss. 320.023 and 322.081.

(l) The records pertaining to the use of funds from the sale of specialty license plates described in chapter 320.

(m) The acquisitions and divestitures related to the Florida Communities Trust Program created pursuant to chapter 380.

(n) The Florida Water Pollution Control Financing Corporation created pursuant to s. 403.1837.

(o) The school readiness program, including the early learning coalitions under part VI of chapter 1002.

(p) CareerSource Florida, Inc., or the programs or entities created by CareerSource Florida, Inc., created pursuant to s. 445.004.

(q) The corporation defined in s. 455.32 that is under contract with the Department of Business and Professional Regulation to provide administrative, investigative, examination, licensing, and prosecutorial support services in accordance with the provisions of s. 455.32 and the practice act of the relevant profession.

(r) The Florida Engineers Management Corporation created pursuant to chapter 471.

(s) The books and records of any permit holder that conducts race meetings or jai alai exhibitions under chapter 550.

(t) The corporation defined in part II of chapter 946, known as the Prison Rehabilitative Industries and Diversified Enterprises, Inc., or PRIDE Enterprises.

(u) The Florida Virtual School pursuant to s. 1002.37.

(v) Virtual education providers receiving state funds or funds from local ad valorem taxes.

(w) The accounts and records of a nonprofit scholarship-funding organization participating in a state sponsored scholarship program authorized by chapter 1002.

(x) The Florida Tourism Industry Marketing Corporation.

(4) SCHEDULING AND STAFFING OF AUDITS.—

(a) Each financial audit required or authorized by this section, when practicable, shall be made and completed within not more than 9 months following the end of each audited fiscal year of the state agency or political subdivision, or at such lesser time which may be provided by law or concurrent resolution or directed by the Legislative Auditing Committee. When the Auditor General determines that conducting any audit or engagement otherwise required by law would not be possible due to workload or would not be an efficient or effective use of his or her resources based on an assessment of risk, then, in his or her discretion, the Auditor General may temporarily or indefinitely postpone such audits or other engagements for such period or any portion thereof, unless otherwise directed by the committee.

(b) The Auditor General may, when in his or her judgment it is necessary, designate and direct any auditor employed by the Auditor General to audit any accounts or records within the authority of the Auditor General to audit. The auditor shall report his or her findings for review by the Auditor General, who shall prepare the audit report.

(c) The audit report when final shall be a public record. The audit work-papers and notes are not a public record; however, those work-papers necessary to support the computations in the final audit report may be made available by a majority vote of the Legislative Auditing Committee after a public hearing showing proper cause. The audit work-papers and notes shall be retained by the Auditor General until no longer useful in his or her proper functions, after which time they may be destroyed.

(d) At the conclusion of the audit, the Auditor General or the Auditor General's designated representative shall discuss the audit with the official whose office is subject to audit and submit to that official a list of the Auditor General's findings which may be included in the audit report. If the official is not available for receipt of the list of audit findings, then delivery is presumed to be made when it is delivered to his or her office. The official shall submit to the Auditor General or the designated representative, within 30 days after the receipt of the list of findings, his or her written statement of explanation or rebuttal concerning all of the findings, including corrective action to be taken to preclude a recurrence of all findings.

(e) The Auditor General shall provide the successor independent certified public accountant of a district school board with access to the prior year's working papers in accordance with the Statements on Auditing Standards, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of balance sheet accounts and those relating to contingencies.

(5) PETITION FOR AN AUDIT BY THE AUDITOR GENERAL.—

(a) The Legislative Auditing Committee shall direct the Auditor General to make an audit of any municipality whenever petitioned to do so by at least 20 percent of the registered electors in the last general election of that municipality pursuant to this subsection. The supervisor of elections of the county in which the municipality is located shall certify whether or not the petition contains the signatures of at least 20 percent of the registered electors of the municipality. After the completion of the audit, the Auditor General shall determine whether the municipality has the fiscal resources necessary to pay the cost of the audit. The municipality shall pay the cost of the audit within 90 days after the Auditor General's determination that the municipality has the available resources. If the municipality fails to pay the cost of the audit, the Department of Revenue shall, upon certification of the Auditor General, withhold from that portion of the distribution pursuant to s. 212.20(6)(d)5. which is distributable to such municipality, a sum sufficient to pay the cost of the audit and shall deposit that sum into the General Revenue Fund of the state.

(b) At least one registered elector in the most recent general election must file a letter of intent with the municipal clerk prior to any petition of the electors of that municipality for the purpose of an audit. Each petition must be submitted to the supervisor of elections and contain, at a minimum:

1. The elector's printed name;

2. The signature of the elector;
3. The elector's residence address;
4. The elector's date of birth; and
5. The date signed.

All petitions must be submitted for verification within 1 calendar year after the audit petition origination by the municipal electors.

(6) REQUEST BY A LOCAL GOVERNMENTAL ENTITY FOR AN AUDIT BY THE AUDITOR GENERAL.—Whenever a local governmental entity requests the Auditor General to conduct an audit of all or part of its operations and the Auditor General conducts the audit under his or her own authority or at the direction of the Legislative Auditing Committee, the expenses of the audit shall be paid by the local governmental entity. The Auditor General shall estimate the cost of the audit. Fifty percent of the cost estimate shall be paid by the local governmental entity before the initiation of the audit and deposited into the General Revenue Fund of the state. After the completion of the audit, the Auditor General shall notify the local governmental entity of the actual cost of the audit. The local governmental entity shall remit the remainder of the cost of the audit to the Auditor General for deposit into the General Revenue Fund of the state. If the local governmental entity fails to comply with paying the remaining cost of the audit, the Auditor General shall notify the Legislative Auditing Committee.

(7) AUDITOR GENERAL REPORTING REQUIREMENTS.—

(a) The Auditor General shall notify the Legislative Auditing Committee of any local governmental entity, district school board, charter school, or charter technical career center that does not comply with the reporting requirements of s. 218.39.

(b) The Auditor General, in consultation with the Board of Accountancy, shall review all audit reports submitted pursuant to s. 218.39. The Auditor General shall request any significant items that were omitted in violation of a rule adopted by the Auditor General. The items must be provided within 45 days after the date of the request. If the governmental entity does not comply with the Auditor General's request, the Auditor General shall notify the Legislative Auditing Committee.

(c) The Auditor General shall provide annually a list of those special districts which are not in compliance with s. 218.39 to the Special District Accountability Program of the Department of Economic Opportunity.

(d) During the Auditor General's review of audit reports, he or she shall contact those units of local government, as defined in s. 218.403, that are not in compliance with s. 218.415 and request evidence of corrective action. The unit of local government shall provide the Auditor General with evidence of corrective action within 45 days after the date it is requested by the Auditor General. If the unit of local government fails to comply with the Auditor General's request, the Auditor General shall notify the Legislative Auditing Committee.

(e) The Auditor General shall notify the Governor or the Commissioner of Education, as appropriate, and the Legislative Auditing Committee of any audit report reviewed by the

Auditor General pursuant to paragraph (b) which contains a statement that a local governmental entity, charter school, charter technical career center, or district school board has met one or more of the conditions specified in s. 218.503. If the Auditor General requests a clarification regarding information included in an audit report to determine whether a local governmental entity, charter school, charter technical career center, or district school board has met one or more of the conditions specified in s. 218.503, the requested clarification must be provided within 45 days after the date of the request. If the local governmental entity, charter school, charter technical career center, or district school board does not comply with the Auditor General's request, the Auditor General shall notify the Legislative Auditing Committee. If, after obtaining the requested clarification, the Auditor General determines that the local governmental entity, charter school, charter technical career center, or district school board has met one or more of the conditions specified in s. 218.503, he or she shall notify the Governor or the Commissioner of Education, as appropriate, and the Legislative Auditing Committee.

(f) The Auditor General shall annually compile and transmit to the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee a summary of significant findings and financial trends identified in audit reports reviewed in paragraph (b) or otherwise identified by the Auditor General's review of such audit reports and financial information, and identified in audits of district school boards conducted by the Auditor General. The Auditor General shall include financial information provided pursuant to s. 218.32(1)(e) for entities with fiscal years ending on or after June 30, 2003, within his or her reports submitted pursuant to this paragraph.

(g) If the Auditor General discovers significant errors, improper practices, or other significant discrepancies in connection with his or her audits of a state agency or state officer, the Auditor General shall notify the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee. The President of the Senate and the Speaker of the House of Representatives shall promptly forward a copy of the notification to the chairs of the respective legislative committees, which in the judgment of the President of the Senate and the Speaker of the House of Representatives are substantially concerned with the functions of the state agency or state officer involved. Thereafter, and in no event later than the 10th day of the next succeeding legislative session, the person in charge of the state agency involved, or the state officer involved, as the case may be, shall explain in writing to the President of the Senate, the Speaker of the House of Representatives, and to the Legislative Auditing Committee the reasons or justifications for such errors, improper practices, or other significant discrepancies and the corrective measures, if any, taken by the agency.

(h) The Auditor General shall annually compile and transmit to the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee by December 1 of each year a report that includes a projected 2-year work plan identifying the audit and other accountability activities to be undertaken and a list of statutory and fiscal changes recommended by the Auditor General. The Auditor General may also transmit recommendations at other times of the year when the information would be timely and useful for the Legislature.

(i) The Auditor General shall annually transmit by July 15, to the President of the Senate, the Speaker of the House of Representatives, and the Department of Financial Services, a list of all school districts, charter schools, charter technical career centers, Florida College System institutions, state universities, and water management districts that have failed to

comply with the transparency requirements as identified in the audit reports reviewed pursuant to paragraph (b) and those conducted pursuant to subsection (2).

(j) The Auditor General shall notify the Legislative Auditing Committee of any financial or operational audit report prepared pursuant to this section which indicates that a district school board, state university, or Florida College System institution has failed to take full corrective action in response to a recommendation that was included in the two preceding financial or operational audit reports.

1. The committee may direct the district school board or the governing body of the state university or Florida College System institution to provide a written statement to the committee explaining why full corrective action has not been taken or, if the governing body intends to take full corrective action, describing the corrective action to be taken and when it will occur.

2. If the committee determines that the written statement is not sufficient, the committee may require the chair of the district school board or the chair of the governing body of the state university or Florida College System institution, or the chair's designee, to appear before the committee.

3. If the committee determines that the district school board, state university, or Florida College System institution has failed to take full corrective action for which there is no justifiable reason or has failed to comply with committee requests made pursuant to this section, the committee shall refer the matter to the State Board of Education or the Board of Governors, as appropriate, to proceed in accordance with s. 1008.32 or s. 1008.322, respectively.

(8) RULES OF THE AUDITOR GENERAL.—The Auditor General, in consultation with the Board of Accountancy, shall adopt rules for the form and conduct of all financial audits performed by independent certified public accountants pursuant to ss. 215.981, 218.39, 1001.453, 1002.395, 1004.28, and 1004.70. The rules for audits of local governmental entities, charter schools, charter technical career centers, and district school boards must include, but are not limited to, requirements for the reporting of information necessary to carry out the purposes of the Local Governmental Entity, Charter School, Charter Technical Career Center, and District School Board Financial Emergencies Act as stated in s. 218.501.

(9) TECHNICAL ADVICE PROVIDED BY THE AUDITOR GENERAL.—The Auditor General may provide technical advice to:

(a) The Department of Education in the development of a compliance supplement for the financial audit of a district school board conducted by an independent certified public accountant.

(b) Governmental entities on their financial and accounting systems, procedures, and related matters.

(c) Governmental entities on promoting the building of competent and efficient accounting and internal audit organizations in their offices.

History.—s. 6, ch. 67-470; s. 6, ch. 69-82; s. 1, ch. 72-6; ss. 1, 2, ch. 73-234; s. 1, ch. 75-122; s. 1, ch. 76-73; s. 1, ch. 77-102; s. 2, ch. 79-183; ss. 1, 3, 6, ch. 79-589; s. 1, ch. 81-167; s. 1, ch. 83-55; s. 1, ch. 83-106; s. 1, ch. 84-241; s. 1, ch. 85-80; s. 14, ch. 86-204; s. 2, ch. 86-217; s. 1, ch. 87-114; s. 4, ch. 89-87; s. 30, ch. 89-169; s. 9, ch. 90-

110; s. 19, ch. 90-227; s. 65, ch. 91-45; s. 17, ch. 91-282; s. 2, ch. 91-429; s. 91, ch. 92-142; s. 136, ch. 92-279; s. 55, ch. 92-326; s. 15, ch. 94-249; s. 1309, ch. 95-147; s. 1, ch. 95-214; s. 1, ch. 95-380; s. 12, ch. 95-396; s. 26, ch. 96-318; s. 1, ch. 96-324; s. 21, ch. 97-96; s. 1, ch. 97-111; s. 1, ch. 97-255; s. 26, ch. 97-271; s. 3, ch. 99-333; s. 1, ch. 2000-151; s. 4, ch. 2000-264; s. 31, ch. 2000-355; s. 36, ch. 2000-371; s. 30, ch. 2001-140; s. 15, ch. 2001-266; s. 1, ch. 2002-1; s. 17, ch. 2002-22; s. 880, ch. 2002-387; s. 2, ch. 2004-305; s. 1, ch. 2004-331; s. 3, ch. 2004-484; s. 1, ch. 2005-171; s. 7, ch. 2006-190; s. 5, ch. 2009-68; s. 1, ch. 2009-214; s. 2, ch. 2010-5; s. 13, ch. 2011-34; s. 1, ch. 2011-49; s. 1, ch. 2011-52; s. 36, ch. 2011-142; s. 1, ch. 2012-5; s. 1, ch. 2012-134; s. 1, ch. 2013-15; s. 1, ch. 2013-51; s. 19, ch. 2013-252; s. 1, ch. 2014-17; s. 55, ch. 2014-22; s. 1, ch. 2014-39; s. 15, ch. 2014-184; s. 1, ch. 2014-223; s. 1, ch. 2015-2; s. 1, ch. 2015-98; ss. 5, 36, ch. 2016-62; s. 1, ch. 2017-116; s. 13, ch. 2017-233; s. 1, ch. 2018-5.

¹Note.—Section 1, ch. 2018-5, redesignated current paragraph (2)(k) as paragraph (l) and added a new paragraph (k), effective July 1, 2019, to read:

(k) Contact each district school board, as defined in s. 1003.01(1), with the findings and recommendations contained within the Auditor General's previous operational audit report. The district school board shall provide the Auditor General with evidence of the initiation of corrective action within 45 days after the date it is requested by the Auditor General and evidence of completion of corrective action within 180 days after the date it is requested by the Auditor General. If the district school board fails to comply with the Auditor General's request or is unable to take corrective action within the required timeframe, the Auditor General shall notify the Legislative Auditing Committee.

Note.—Former s. 11.186.

LOCAL FINANCIAL MANAGEMENT AND REPORTING

218.30 Short title.

218.31 Definitions.

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218.36 County officers; record and report of fees and disposition of same.

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218.37 Powers and duties of Division of Bond Finance; advisory council.

218.38 Notice of bond issues required; verification.

218.385 Local government bonds; sale.

218.386 Bonds; finder's fees prohibited.

218.39 Annual financial audit reports.

218.391 Auditor selection procedures.

218.30 Short title.—This part shall be known and may be cited as the “Uniform Local Government Financial Management and Reporting Act.”

History.—s. 2, ch. 73-349.

218.31 Definitions.—As used in this part, except where the context clearly indicates a different meaning:

(1) “Local governmental entity” means a county agency, a municipality, or a special district as defined in s. 189.012. For purposes of s. 218.32, the term also includes a housing authority created under chapter 421.

(2) “Unit of local general-purpose government” means a county or a municipality established by general or special law.

(3) “Local governing authority” means the governing body of a unit of local general-purpose government.

(4) “Department” means the Department of Financial Services.

(5) “Special district” means a special district as defined in s. 189.012.

(6) “Dependent special district” means a dependent special district as defined in s. 189.012.

(7) "Independent special district" means an independent special district as defined in s. 189.012.

(8) "County fee officers" means those county officials who are assigned specialized functions within county government and whose budgets are established independently of the local governing body, even though said budgets may be reported to the local governing body or may be composed of funds either generally or specially available to a local governing authority involved.

(9) "Verified report" means a report that has received such test or tests by the department so as to accurately and reliably present the data that have been submitted by the local governmental entities for inclusion in the report.

(10) "Short-term debt" means any debt with a maturity of less than 1 year from the date of issuance.

(11) "Revenue bonds" means any obligations issued by a unit to pay the cost of a project or improvement thereof, or combination of one or more projects or improvements thereof, and payable from the earnings of such project and any other special funds authorized to be pledged as additional security therefor.

(12) "Limited revenue bonds" means any obligations issued by a unit to pay the cost of a project or improvement thereof, or combination of one or more projects or improvements thereof, and payable from funds, exclusive of ad valorem taxes, special assessments, or earnings from such projects or improvements.

(13) "Industrial development bond" means any obligation the interest on which is exempt from income taxes under the provisions of s. 103(b) of the United States Internal Revenue Code and the payment of the principal or interest on which under the terms of such obligation or any underlying arrangement is, in whole or in major part:

(a) Secured by any interest in property used or to be used in a trade or business or in payments in respect of such property.

(b) To be derived from payments in respect of property, or borrowed money, used or to be used in a trade or business.

(14) "Generally accepted accounting principles" means those accounting principles adopted by rule of the Board of Accountancy under chapter 473.

(15) "Auditor" means an independent certified public accountant licensed pursuant to chapter 473 and retained by a local governmental entity to perform a financial audit.

(16) "County agency" means a board of county commissioners or other legislative and governing body of a county, however styled, including that of a consolidated or metropolitan government, a clerk of the circuit court, a separate or ex officio clerk of the county court, a sheriff, a property appraiser, a tax collector, a supervisor of elections, or any other officer in whom any portion of the fiscal duties of the above are under law separately placed.

(17) "Financial audit" means an examination of financial statements in order to express an opinion on the fairness with which they are presented in conformity with generally accepted accounting principles and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements. Financial audits must be conducted in accordance with auditing standards generally accepted in the United States

and government auditing standards as adopted by the Board of Accountancy and as prescribed by rules promulgated by the Auditor General. When applicable, the scope of financial audits shall encompass the additional activities necessary to establish compliance with the Single Audit Act Amendments of 1996, 31 U.S.C. ss. 7501-7507, and other applicable federal law.

(18) "Management letter" means a statement of the auditor's comments and recommendations as prescribed by rules adopted by the Auditor General.

History.—s. 2, ch. 73-349; s. 4, ch. 79-183; s. 1, ch. 81-96; s. 83, ch. 83-217; s. 58, ch. 89-169; s. 2, ch. 92-300; s. 17, ch. 96-324; s. 61, ch. 2001-266; s. 254, ch. 2003-261; s. 5, ch. 2011-52; s. 78, ch. 2014-22.

218.32 Annual financial reports; local governmental entities.—

(1)(a) Each local governmental entity that is determined to be a reporting entity, as defined by generally accepted accounting principles, and each independent special district as defined in s. 189.012, shall submit to the department a copy of its annual financial report for the previous fiscal year in a format prescribed by the department. The annual financial report must include a list of each local governmental entity included in the report and each local governmental entity that failed to provide financial information as required by paragraph (b). The chair of the governing body and the chief financial officer of each local governmental entity shall sign the annual financial report submitted pursuant to this subsection attesting to the accuracy of the information included in the report. The county annual financial report must be a single document that covers each county agency.

(b) Each component unit, as defined by generally accepted accounting principles, of a local governmental entity shall provide the local governmental entity, within a reasonable time period as established by the local governmental entity, with financial information necessary to comply with the reporting requirements contained in this section.

(c) Each regional planning council created under s. 186.504, each local government finance commission, board, or council, and each municipal power corporation created as a separate legal or administrative entity by interlocal agreement under s. 163.01(7) shall submit to the department a copy of its audit report and an annual financial report for the previous fiscal year in a format prescribed by the department.

(d) Each local governmental entity that is required to provide for an audit under s. 218.39(1) must submit a copy of the audit report and annual financial report to the department within 45 days after the completion of the audit report but no later than 9 months after the end of the fiscal year.

(e) Each local governmental entity that is not required to provide for an audit under s. 218.39 must submit the annual financial report to the department no later than 9 months after the end of the fiscal year. The department shall consult with the Auditor General in the development of the format of annual financial reports submitted pursuant to this paragraph. The format must include balance sheet information used by the Auditor General pursuant to s. 11.45(7)(f). The department must forward the financial information contained within the annual financial reports to the Auditor General in electronic form. This paragraph does not apply to housing authorities created under chapter 421.

(f) If the department does not receive a completed annual financial report from a local governmental entity within the required period, it shall notify the Legislative Auditing Committee and the Special District Accountability Program of the Department of Economic Opportunity of the entity's failure to comply with the reporting requirements.

(g) Each local governmental entity's website must provide a link to the department's website to view the entity's annual financial report submitted to the department pursuant to this section. If the local governmental entity does not have an official website, the county government's website must provide the required link for the local governmental entity.

(h) It is the intent of the Legislature to create the Florida Open Financial Statement System, an interactive repository for governmental financial statements.

1. The Chief Financial Officer may consult with stakeholders, including the department, the Auditor General, a representative of a municipality or county, a representative of a special district, a municipal bond investor, and an information technology professional employed in the private sector, for input on the design and implementation of the Florida Open Financial Statement System.

2. The Chief Financial Officer may choose contractors to build one or more eXtensible Business Reporting Language (XBRL) taxonomies suitable for state, county, municipal, and special district financial filings and to create a software tool that enables financial statement filers to easily create XBRL documents consistent with such taxonomies. The Chief Financial Officer must recruit and select contractors through an open request for proposals process pursuant to chapter 287.

3. The Chief Financial Officer must require that all work products be completed no later than December 31, 2021.

4. If the Chief Financial Officer deems the work products adequate, all local governmental financial statements for fiscal years ending on or after September 1, 2022, must be filed in XBRL format and must meet the validation requirements of the relevant taxonomy.

5. A local government that begins filing in XBRL format may not be required to make filings in Portable Document Format.

(2) The department shall annually by December 1 file a verified report with the Governor, the Legislature, the Auditor General, and the Special District Accountability Program of the Department of Economic Opportunity showing the revenues, both locally derived and derived from intergovernmental transfers, and the expenditures of each local governmental entity, regional planning council, local government finance commission, and municipal power corporation that is required to submit an annual financial report. The report must include, but is not limited to:

(a) The total revenues and expenditures of each local governmental entity that is a component unit included in the annual financial report of the reporting entity.

(b) The amount of outstanding long-term debt by each local governmental entity. For purposes of this paragraph, the term "long-term debt" means any agreement or series of agreements to pay money, which, at inception, contemplate terms of payment exceeding 1 year in duration.

(3) The department shall notify the President of the Senate and the Speaker of the House of Representatives of any municipality that has not reported any financial activity for the last 4 fiscal years. Such notice must be sufficient to initiate dissolution procedures as described in s. 165.051(1)(a). Any special law authorizing the incorporation or creation of the municipality must be included within the notification.

History.—s. 2, ch. 73-349; s. 15, ch. 77-165; s. 46, ch. 79-164; s. 5, ch. 79-183; s. 4, ch. 79-589; s. 42, ch. 80-274; s. 18, ch. 81-167; s. 16, ch. 83-55; s. 2, ch. 83-106; s. 43, ch. 89-169; s. 55, ch. 91-45; s. 93, ch. 92-152; s. 90, ch. 92-279; s. 55, ch. 92-326; s. 36, ch. 94-249; s. 18, ch. 96-324; s. 8, ch. 2000-152; s. 5, ch. 2000-264; s. 62, ch. 2001-266; s. 26, ch. 2004-305; s. 25, ch. 2011-34; s. 85, ch. 2011-142; s. 18, ch. 2011-144; s. 27, ch. 2013-15; s. 79, ch. 2014-22; s. 4, ch. 2018-102.

218.322 County and municipal transportation program data.—Each county and municipality shall annually provide the Department of Transportation with uniform program data. The data must conform to the local governmental entity's fiscal year and must include, but need not be limited to, details on transportation receipts and expenditures and on the number of miles of road for which the local governmental entity is responsible. The Department of Transportation shall inform each local governmental entity of the method and format for submitting the data. The Department of Transportation shall compile the data and shall furnish the compilation of data to any interested person upon request.

History.—s. 29, ch. 96-324.

218.33 Local governmental entities; establishment of uniform fiscal years and accounting practices and procedures.—

(1) Each local governmental entity shall begin its fiscal year on October 1 of each year and end it on September 30.

(2) Each local governmental entity shall follow uniform accounting practices and procedures as promulgated by rule of the department to assure the use of proper accounting and fiscal management by such units. Such rules shall include a uniform classification of accounts.

(3) Any word, sentence, phrase, or provision of any special act, municipal charter, or other law that prohibits or restricts a local governmental entity from complying with this section or any rules adopted under this section is nullified and repealed to the extent of the conflict.

History.—s. 2, ch. 73-349; s. 66, ch. 77-104; s. 20, ch. 96-324; s. 63, ch. 2001-266.

218.335 Local governmental entity; authority to charge interest on overdue payments.—A local governmental entity may impose an interest penalty on any amount due and owing to it from another local governmental entity if payment of the amount is not made within 10 working days after the required time authorized by interlocal agreement. The rate of interest that must be imposed is the rate established under s. 55.03. This section does not apply to payments due from the state or any of its agencies.

History.—s. 1, ch. 84-178; s. 34, ch. 85-80; s. 21, ch. 96-324.

218.35 County fee officers; financial matters.—

(1) Each county fee officer shall establish an annual budget for carrying out the powers, duties, and operations of his or her office for the next county fiscal year. The budget must

be balanced so that the total of estimated receipts, including balances brought forward, equals the total of estimated expenditures and reserves. The budgeting of segregated funds must be made in a manner that retains the relation between program and revenue source, as provided by law.

(2) The clerk of the circuit court, functioning in his or her capacity as clerk of the circuit and county courts and as clerk of the board of county commissioners, shall prepare his or her budget in two parts:

(a) The budget for funds necessary to perform court-related functions as provided in s. 28.36.

(b) The budget relating to the requirements of the clerk as clerk of the board of county commissioners, county auditor, and custodian or treasurer of all county funds and other county-related duties, which shall be annually prepared and submitted to the board of county commissioners pursuant to s. 129.03(2), for each fiscal year. Expenditures must be itemized in accordance with the uniform accounting system prescribed by the Department of Financial Services as follows:

1. Personnel services.
2. Operating expenses.
3. Capital outlay.
4. Debt service.
5. Grants and aids.
6. Other uses.

(3) The clerk of the circuit court shall furnish to the board of county commissioners or the county budget commission all relevant and pertinent information that the board or commission deems necessary, including expenditures at the subobject code level in accordance with the uniform accounting system prescribed by the Department of Financial Services.

(4) The final approved budget of the clerk of the circuit court must be posted on the county's official website within 30 days after adoption. The final approved budget of the clerk of the circuit court may be included in the county's budget.

(5) Each county fee officer shall establish a fiscal year beginning October 1 and ending September 30 of the following year, and shall report his or her finances annually upon the close of each fiscal year to the county fiscal officer for inclusion in the annual financial report by the county.

(6) The proposed budget of a county fee officer shall be filed with the clerk of the county governing authority by September 1 preceding the fiscal year for the budget, except for the budget prepared by the clerk of the circuit court for court-related functions as provided in s. 28.36.

History.—s. 2, ch. 73-349; s. 1176, ch. 95-147; s. 97, ch. 2003-402; s. 19, ch. 2011-144.

218.36 County officers; record and report of fees and disposition of same.—

(1) Each county officer who receives any expenses or compensation in fees, commissions, or other remuneration shall keep a complete record of all fees, commissions, or other remuneration collected by that county officer and shall make an annual report to the board of county commissioners within 31 days of the close of his or her fiscal year. Such report shall specify in detail the purposes, character, and amount of all official expenses and the amount of net income or unexpended budget balance as of the close of the fiscal year. All officers shall prepare such reports and subscribe under oath as to their accuracy and propriety.

(2) On or before the date for filing the annual report, each county officer shall pay into the county general fund all money in excess of the sum to which he or she is entitled under the provisions of chapter 145. Whenever a tax collector has money in excess, he or she shall distribute the excess to each governmental unit in the same proportion as the fees paid by the governmental unit bear to the total fee income of his or her office. Any excess held by a property appraiser shall be divided into parts for each governmental unit which was billed and which paid for the operation of the property appraiser's office in the same proportion as the governmental units were originally billed. Such part shall be an advance on the current year's bill, if any.

(3) The board of county commissioners may notify the Governor of the failure of any county officer to comply with the provisions of this section. Such notification shall specify the name of the officer and the office held by him or her at the time of such failure and shall subject said officer to suspension from office at the Governor's discretion.

(4) Compliance by a county officer with the provisions of this section shall exempt said officer from making any report required pursuant to s. 116.03.

History.—s. 2, ch. 73-349; s. 17, ch. 74-234; s. 1, ch. 77-102; s. 5, ch. 88-175; s. 1177, ch. 95-147; s. 29, ch. 2004-305.

218.369 Definitions applicable to ss. 218.37-218.386.—As used in this section and in ss. 218.37, 218.38, 218.385, and 218.386, the term "unit of local government," except where exception is made, means a county, municipality, special district, district school board, local agency, authority, or consolidated city-county government or any other local governmental body or public body corporate and politic authorized or created by general or special law and granted the power to issue general obligation or revenue bonds; and the words "general obligation or revenue bonds" shall be interpreted to include within their scope general obligation bonds, revenue bonds, special assessment bonds, limited revenue bonds, special obligation bonds, debentures, and other similar instruments, but not bond anticipation notes.

History.—s. 1, ch. 82-195; s. 84, ch. 83-217; s. 30, ch. 2004-305.

218.37 Powers and duties of Division of Bond Finance; advisory council.—

(1) The Division of Bond Finance of the State Board of Administration, with respect to both general obligation bonds and revenue bonds, shall:

(a) Provide information, upon request of a unit of local government, on the preliminary planning of a new bond issue.

(b) Collect, maintain, and make available information on new bonds of units of local government and of the state.

- (c) Serve as a clearinghouse for information on bond issues of units of local government and of the state.
 - (d) Undertake or commission studies on methods to reduce the costs of local and state bond issues.
 - (e) Recommend changes in law and in local practices to improve the sale and servicing of local bonds.
 - (f) By January 1 each year, provide the Special District Accountability Program of the Department of Economic Opportunity with a list of special districts that are not in compliance with the requirements in s. 218.38.
- (2) The Division of Bond Finance of the State Board of Administration shall also collect, maintain, and make available information from units of local government on lease-purchase agreements or certificates of participation, or other similar debt instruments, for which the total amount of principal payments under the agreement or series of agreements is \$2 million or more.
- (3) The Division of Bond Finance of the State Board of Administration may adopt rules to implement this section and ss. 218.38 and 218.385.
- (4) The Division of Bond Finance of the State Board of Administration shall conduct a study of professional fees paid to fiscal advisers, bond counsel, and others and shall adopt a recommended fee schedule that is commensurate with fees typically paid in states similar to Florida in size and character. The schedule must be adopted by the division as the recommended fee schedule for all state and state agency financings.

History.—s. 6, ch. 79-183; s. 1, ch. 82-46; ss. 1, 9, ch. 82-195; s. 85, ch. 83-217; s. 2, ch. 88-318; s. 44, ch. 89-169; s. 15, ch. 92-173; s. 165, ch. 92-279; s. 55, ch. 92-326; s. 20, ch. 95-196; s. 23, ch. 96-324; s. 43, ch. 2004-305; s. 86, ch. 2011-142; s. 80, ch. 2014-22; s. 1, ch. 2015-22.

218.38 Notice of bond issues required; verification.—

- (1)(a) Each unit of local government shall furnish the Division of Bond Finance of the State Board of Administration a complete description of all of its new general obligation bonds and revenue bonds, shall also provide the division with advance notice of the impending sale of any new issue of bonds, and shall also provide the division with a copy of the final official statement, if any is published, all as required by rules of the division.
- (b)1. Excluding for the purposes of this paragraph those general obligation bonds and revenue bonds issued pursuant to the provisions of part III of chapter 154, parts II, III, and V of chapter 159, and part II of chapter 243, each unit of local government shall, within 120 days after the delivery of any general revenue or obligation bonds which were sold at public sale by competitive bids, file the following information with the division on forms prescribed by the division:
- a. The name and address of the managing underwriter, if any, connected with the bond issue;
 - b. The name and address of any attorney or financial consultant who advised the unit of local government with respect to the bond issue;

c. Any fee, bonus, or gratuity paid by any underwriter or financial consultant, in connection with the bond issue, to any person not regularly employed or engaged by such underwriter or consultant; and

d. Any other fee paid by the unit of local government with respect to the bond issue, including any fee paid to attorneys or financial consultants.

2. Within 90 days after the delivery of such bonds, the managing underwriter or financial consultant shall file with the unit of local government a statement containing the information required by sub-subparagraph 1.c.

3. The information disclosed pursuant to this paragraph shall be maintained by the division and by the unit of local government as a public record.

(c)1. Excluding for the purposes of this paragraph those general obligation bonds and revenue bonds issued pursuant to the provisions of part III of chapter 154, parts II, III, and V of chapter 159, and part II of chapter 243, each unit of local government shall, within 120 days after the delivery of any general obligation or revenue bonds which were sold by negotiated bond sale authorized by s. 218.385, file the following information with the division on forms prescribed by the division:

a. The name and address of the managing underwriter, if any, connected with the bond issue;

b. The name and address of any attorney or financial consultant who advised the unit of local government with respect to the bond issue;

c. Any management fee charged by the managing underwriter, if any;

d. The underwriting spread which the managing underwriter, if any, expects to realize;

e. Any fee, bonus, or gratuity paid by any underwriter or financial consultant, in connection with the bond issue, to any person not regularly employed or engaged by such underwriter or consultant; and

f. Any other fee paid by the unit of local government with respect to the bond issue, including any fee paid to attorneys or financial consultants.

2. Within 90 days after the delivery of such bonds, the managing underwriter or financial consultant shall file with the unit of local government a statement containing the information required by sub-subparagraphs 1.c., d., and e.

3. The information disclosed pursuant to this paragraph shall be maintained by the division and by the unit of local government as a public record.

(2) Each unit of local government shall, upon request of the division, verify the information held by the division relating to the bonded obligations of the unit of local government.

(3) If a unit of local government fails to verify pursuant to subsection (2) the information held by the division, or fails to provide the information required by subsection (1), the division shall notify the Legislative Auditing Committee of such failure to comply.

History.—s. 7, ch. 79-183; s. 3, ch. 80-98; s. 19, ch. 81-167; s. 2, ch. 82-195; s. 17, ch. 83-55; s. 45, ch. 89-169; s. 166, ch. 92-279; s. 55, ch. 92-326; s. 24, ch. 96-324; s. 6, ch. 2000-264; s. 64, ch. 2001-266; s. 26, ch. 2011-34.

218.385 Local government bonds; sale.—

(1) All general obligation bonds and revenue bonds sold by a unit of local government, as defined in s. 218.369, shall be sold at public sale by competitive bids at such place or places as the governing body shall determine to receive proposals for the purchase of such bonds. Notice of such sale shall be published one or more times at least 10 days prior to the date of sale in one or more newspapers or financial journals published within or without the state and shall contain such terms as the governing body shall deem advisable and proper under the circumstances. However, if the governing body shall by resolution adopted at a public meeting determine that a negotiated sale of such bonds is in the best interest of the issuer, the governing body may negotiate for sale of such bonds.

(a) In the resolution authorizing the negotiated sale, the local governing body shall provide specific findings as to the reasons requiring the negotiated sale.

(b) A resolution authorizing a negotiated bond sale may be the same resolution as that authorizing the issuance of such bonds.

(2) Prior to the award of bonds, all proposals for the purchase of any bonds offered by a unit of local government as defined in s. 218.369 shall include a truth-in-bonding statement in substantially the following form:

The (insert unit of local government) is proposing to issue \$ (insert principal) of debt or obligation for the purpose of (insert purpose) . This debt or obligation is expected to be repaid over a period of (insert term of issue) years. At a forecasted interest rate of (insert rate of interest) , total interest paid over the life of the debt or obligation will be \$ (insert sum of interest payments) .

(3) Truth-in-bonding statements shall also include language in substantially the following form:

The source of repayment or security for this proposal is the (insert the unit of local government) existing (insert fund) . Authorizing this debt or obligation will result in \$ (insert the annual amount) of (insert unit of local government) (insert fund) moneys not being available to finance the other services of the (insert unit of local government) each year for (insert the length of the debt or obligation) .

(4) All proposals for the purchase of any bonds offered by a unit of local government shall be opened in public. Such bonds when competitively bid shall be awarded by resolution to the lowest bid consistent with the notice of sale.

(5) No bid conforming to the notice of sale may be rejected unless all bids are rejected. If all bids are rejected, such bonds may be sold thereafter at public sale by competitive bids or by negotiated sale pursuant to this section.

(6) In the event the local governing body decides to negotiate for a sale of bonds, the managing underwriter, or financial consultant or adviser if applicable, shall provide to the unit of local government, prior to the award of bonds to the managing underwriter, a disclosure statement containing the following information:

(a) An itemized list setting forth the nature and estimated amounts of expenses to be incurred by the managing underwriter in connection with the issuance of such bonds.

Notwithstanding the foregoing, any such list may include an item for miscellaneous expenses, provided it includes only minor items of expense which cannot be easily categorized elsewhere in the statement.

- (b) The names, addresses, and estimated amounts of compensation of any finders, as defined in s. 218.386, connected with the issuance of the bonds.
- (c) The amount of underwriting spread expected to be realized.
- (d) Any management fee charged by the managing underwriter.
- (e) Any other fee, bonus, and other compensation estimated to be paid by the managing underwriter in connection with the bond issue to any person not regularly employed or retained by it.
- (f) The name and address of the managing underwriter or underwriters, if any, connected with the bond issue.
- (g) Any other disclosure which the local governing body may require.

This subsection is not intended to restrict or prohibit the employment of professional services relating to local government bond issues.

(7) The failure of a unit of local government to comply with one or more provisions of this section or s. 218.38 shall not affect the validity of the bond issue; however, upon such failure to comply, the unit of local government shall be subject to the sanctions provided in s. 218.38(3).

(8) The truth-in-bonding statements prepared pursuant to this section are for informational purposes only and shall not affect or control the actual terms and conditions of the debt or obligations.

History.—s. 1, ch. 80-98; s. 125, ch. 81-259; s. 3, ch. 82-195; s. 84, ch. 92-142.

218.386 Bonds; finder's fees prohibited.—

(1)(a) As used in this section, "finder" means a person who is not regularly employed by, or not a partner or officer of, an underwriter, bank, banker, or financial consultant or adviser and who enters into an understanding with either the issuer or the managing underwriter, or both, for any paid or promised compensation or valuable consideration directly or indirectly, expressly or impliedly, to act solely as an intermediary between such issuer and managing underwriter for the purpose of influencing any transaction in the purchase of such bonds.

(b) No underwriter, commercial bank, investment banker, or financial consultant or adviser shall pay any finder any bonus, fee, or gratuity in connection with the sale of general obligation bonds or revenue bonds issued by any unit of local government, unless full disclosure is made to the unit of local government prior to or concurrently with the submission of a purchase proposal for bonds by the underwriter, commercial bank, investment banker, or financial consultant or adviser and subsequently in the official statement or offering circular, if any, detailing the name and address of any finder and the amount of bonus, fee, or gratuity paid to such finder.

(2) The willful violation of this section is a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

(3) No violation of this section shall affect the validity of the bond issue.

History.—s. 2, ch. 80-98; s. 3, ch. 82-195.

218.39 Annual financial audit reports.—

(1) If, by the first day in any fiscal year, a local governmental entity, district school board, charter school, or charter technical career center has not been notified that a financial audit for that fiscal year will be performed by the Auditor General, each of the following entities shall have an annual financial audit of its accounts and records completed within 9 months after the end of its fiscal year by an independent certified public accountant retained by it and paid from its public funds:

(a) Each county.

(b) Any municipality with revenues or the total of expenditures and expenses in excess of \$250,000, as reported on the fund financial statements.

(c) Any special district with revenues or the total of expenditures and expenses in excess of \$100,000, as reported on the fund financial statements.

(d) Each district school board.

(e) Each charter school established under s. 1002.33.

(f) Each charter technical center established under s. 1002.34.

(g) Each municipality with revenues or the total of expenditures and expenses between \$100,000 and \$250,000, as reported on the fund financial statements, which has not been subject to a financial audit pursuant to this subsection for the 2 preceding fiscal years.

(h) Each special district with revenues or the total of expenditures and expenses between \$50,000 and \$100,000, as reported on the fund financial statement, which has not been subject to a financial audit pursuant to this subsection for the 2 preceding fiscal years.

(2) The county audit report must be a single document that includes a financial audit of the county as a whole and, for each county agency other than a board of county commissioners, an audit of its financial accounts and records, including reports on compliance and internal control, management letters, and financial statements as required by rules adopted by the Auditor General. In addition, if a board of county commissioners elects to have a separate audit of its financial accounts and records in the manner required by rules adopted by the Auditor General for other county agencies, the separate audit must be included in the county audit report.

(3)(a) A dependent special district may provide for an annual financial audit by being included in the audit of the local governmental entity upon which it is dependent. An independent special district may not make provision for an annual financial audit by being included in the audit of another local governmental entity.

(b) A special district that is a component unit, as defined by generally accepted accounting principles, of a local governmental entity shall provide the local governmental entity, within a reasonable time period as established by the local governmental entity, with financial information necessary to comply with this section. The failure of a component unit to provide this financial information must be noted in the annual financial audit report of the local governmental entity.

(4) A management letter shall be prepared and included as a part of each financial audit report.

(5) At the conclusion of the audit, the auditor shall discuss with the chair of the governing body of the local governmental entity or the chair's designee, the elected official of each county agency or the elected official's designee, the chair of the district school board or the chair's designee, the chair of the board of the charter school or the chair's designee, or the chair of the board of the charter technical career center or the chair's designee, as appropriate, all of the auditor's comments that will be included in the audit report. If the officer is not available to discuss the auditor's comments, their discussion is presumed when the comments are delivered in writing to his or her office. The auditor shall notify each member of the governing body of a local governmental entity, district school board, charter school, or charter technical career center for which:

(a) Deteriorating financial conditions exist that may cause a condition described in s. 218.503(1) to occur if actions are not taken to address such conditions.

(b) A fund balance deficit in total or a deficit for that portion of a fund balance not classified as restricted, committed, or nonspendable, or a total or unrestricted net assets deficit, as reported on the fund financial statements of entities required to report under governmental financial reporting standards or on the basic financial statements of entities required to report under not-for-profit financial reporting standards, for which sufficient resources of the local governmental entity, charter school, charter technical career center, or district school board, as reported on the fund financial statements, are not available to cover the deficit. Resources available to cover reported deficits include fund balance or net assets that are not otherwise restricted by federal, state, or local laws, bond covenants, contractual agreements, or other legal constraints. Property, plant, and equipment, the disposal of which would impair the ability of a local governmental entity, charter school, charter technical career center, or district school board to carry out its functions, are not considered resources available to cover reported deficits.

(6) The officer's written statement of explanation or rebuttal concerning the auditor's findings, including corrective action to be taken, must be filed with the governing body of the local governmental entity, district school board, charter school, or charter technical career center within 30 days after the delivery of the auditor's findings.

(7) All audits conducted pursuant to this section must be conducted in accordance with the rules of the Auditor General adopted pursuant to s. 11.45. Upon completion of the audit, the auditor shall prepare an audit report in accordance with the rules of the Auditor General. The audit report shall be filed with the Auditor General within 45 days after delivery of the audit report to the governing body of the audited entity, but no later than 9 months after the end of the audited entity's fiscal year. The audit report must include a written statement describing corrective actions to be taken in response to each of the auditor's recommendations included in the audit report.

(8) The Auditor General shall notify the Legislative Auditing Committee of any audit report prepared pursuant to this section which indicates that an audited entity has failed to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports.

(a) The committee may direct the governing body of the audited entity to provide a written statement to the committee explaining why full corrective action has not been taken or, if the governing body intends to take full corrective action, describing the corrective action to be taken and when it will occur.

(b) If the committee determines that the written statement is not sufficient, it may require the chair of the governing body of the local governmental entity or the chair's designee, the elected official of each county agency or the elected official's designee, the chair of the district school board or the chair's designee, the chair of the board of the charter school or the chair's designee, or the chair of the board of the charter technical career center or the chair's designee, as appropriate, to appear before the committee.

(c) If the committee determines that an audited entity has failed to take full corrective action for which there is no justifiable reason for not taking such action, or has failed to comply with committee requests made pursuant to this section, the committee may proceed in accordance with s. 11.40(2).

(9) The predecessor auditor of a district school board shall provide the Auditor General access to the prior year's working papers in accordance with the Statements on Auditing Standards, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of balance sheet accounts and those relating to contingencies.

(10) Each charter school and charter technical career center must file a copy of its audit report with the sponsoring entity; the local district school board, if not the sponsoring entity; the Auditor General; and with the Department of Education.

(11) This section does not apply to housing authorities created under chapter 421.

(12) Notwithstanding the provisions of any local law, the provisions of this section shall govern.

History.—s. 65, ch. 2001-266; s. 924, ch. 2002-387; s. 28, ch. 2004-305; s. 2, ch. 2006-190; s. 2, ch. 2009-214; s. 20, ch. 2011-144; s. 25, ch. 2012-5; s. 1, ch. 2012-38; s. 23, ch. 2016-10.

218.391 Auditor selection procedures.—

(1) Each local governmental entity, district school board, charter school, or charter technical career center, prior to entering into a written contract pursuant to subsection (7), except as provided in subsection (8), shall use auditor selection procedures when selecting an auditor to conduct the annual financial audit required in s. 218.39.

(2) The governing body of a charter county, municipality, special district, district school board, charter school, or charter technical career center shall establish an audit committee. Each noncharter county shall establish an audit committee that, at a minimum, shall consist of each of the county officers elected pursuant to s. 1(d), Art. VIII of the State Constitution, or a designee, and one member of the board of county commissioners or its designee. The primary purpose of the audit committee is to assist the governing body in selecting an auditor to conduct the annual financial audit required in s. 218.39; however, the audit

committee may serve other audit oversight purposes as determined by the entity's governing body. The public shall not be excluded from the proceedings under this section.

(3) The audit committee shall:

(a) Establish factors to use for the evaluation of audit services to be provided by a certified public accounting firm duly licensed under chapter 473 and qualified to conduct audits in accordance with government auditing standards as adopted by the Florida Board of Accountancy. Such factors shall include, but are not limited to, ability of personnel, experience, ability to furnish the required services, and such other factors as may be determined by the committee to be applicable to its particular requirements.

(b) Publicly announce requests for proposals. Public announcements must include, at a minimum, a brief description of the audit and indicate how interested firms can apply for consideration.

(c) Provide interested firms with a request for proposal. The request for proposal shall include information on how proposals are to be evaluated and such other information the committee determines is necessary for the firm to prepare a proposal.

(d) Evaluate proposals provided by qualified firms. If compensation is one of the factors established pursuant to paragraph (a), it shall not be the sole or predominant factor used to evaluate proposals.

(e) Rank and recommend in order of preference no fewer than three firms deemed to be the most highly qualified to perform the required services after considering the factors established pursuant to paragraph (a). If fewer than three firms respond to the request for proposal, the committee shall recommend such firms as it deems to be the most highly qualified.

(4) The governing body shall inquire of qualified firms as to the basis of compensation, select one of the firms recommended by the audit committee, and negotiate a contract, using one of the following methods:

(a) If compensation is not one of the factors established pursuant to paragraph (3)(a) and not used to evaluate firms pursuant to paragraph (3)(e), the governing body shall negotiate a contract with the firm ranked first. If the governing body is unable to negotiate a satisfactory contract with that firm, negotiations with that firm shall be formally terminated, and the governing body shall then undertake negotiations with the second-ranked firm. Failing accord with the second-ranked firm, negotiations shall then be terminated with that firm and undertaken with the third-ranked firm. Negotiations with the other ranked firms shall be undertaken in the same manner. The governing body, in negotiating with firms, may reopen formal negotiations with any one of the three top-ranked firms, but it may not negotiate with more than one firm at a time.

(b) If compensation is one of the factors established pursuant to paragraph (3)(a) and used in the evaluation of proposals pursuant to paragraph (3)(d), the governing body shall select the highest-ranked qualified firm or must document in its public records the reason for not selecting the highest-ranked qualified firm.

(c) The governing body may select a firm recommended by the audit committee and negotiate a contract with one of the recommended firms using an appropriate alternative

negotiation method for which compensation is not the sole or predominant factor used to select the firm.

(d) In negotiations with firms under this section, the governing body may allow a designee to conduct negotiations on its behalf.

(5) The method used by the governing body to select a firm recommended by the audit committee and negotiate a contract with such firm must ensure that the agreed-upon compensation is reasonable to satisfy the requirements of s. 218.39 and the needs of the governing body.

(6) If the governing body is unable to negotiate a satisfactory contract with any of the recommended firms, the committee shall recommend additional firms, and negotiations shall continue in accordance with this section until an agreement is reached.

(7) Every procurement of audit services shall be evidenced by a written contract embodying all provisions and conditions of the procurement of such services. For purposes of this section, an engagement letter signed and executed by both parties shall constitute a written contract. The written contract shall, at a minimum, include the following:

(a) A provision specifying the services to be provided and fees or other compensation for such services.

(b) A provision requiring that invoices for fees or other compensation be submitted in sufficient detail to demonstrate compliance with the terms of the contract.

(c) A provision specifying the contract period, including renewals, and conditions under which the contract may be terminated or renewed.

(8) Written contracts entered into pursuant to subsection (7) may be renewed. Such renewals may be done without the use of the auditor selection procedures provided in this section. Renewal of a contract shall be in writing.

History.—s. 65, ch. 2001-266; s. 1, ch. 2005-32.

218.503 Determination of financial emergency.—

(1) Local governmental entities, charter schools, charter technical career centers, and district school boards shall be subject to review and oversight by the Governor, the charter school sponsor, the charter technical career center sponsor, or the Commissioner of Education, as appropriate, when any one of the following conditions occurs:

(a) Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.

(b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.

(c) Failure to transfer at the appropriate time, due to lack of funds:

1. Taxes withheld on the income of employees; or
2. Employer and employee contributions for:

- a. Federal social security; or
- b. Any pension, retirement, or benefit plan of an employee.

(d) Failure for one pay period to pay, due to lack of funds:

- 1. Wages and salaries owed to employees; or
- 2. Retirement benefits owed to former employees.

(2) A local governmental entity shall notify the Governor and the Legislative Auditing Committee; a charter school shall notify the charter school sponsor, the Commissioner of Education, and the Legislative Auditing Committee; a charter technical career center shall notify the charter technical career center sponsor, the Commissioner of Education, and the Legislative Auditing Committee; and a district school board shall notify the Commissioner of Education and the Legislative Auditing Committee, when one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity, charter school, charter technical career center, or district school board. In addition, any state agency must, within 30 days after a determination that one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity, charter school, charter technical career center, or district school board, notify the Governor, charter school sponsor, charter technical career center sponsor, or the Commissioner of Education, as appropriate, and the Legislative Auditing Committee.

(3) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity or district school board, the Governor or his or her designee shall contact the local governmental entity or the Commissioner of Education or his or her designee shall contact the district school board to determine what actions have been taken by the local governmental entity or the district school board to resolve or prevent the condition. The information requested must be provided within 45 days after the date of the request. If the local governmental entity or the district school board does not comply with the request, the Governor or his or her designee or the Commissioner of Education or his or her designee shall notify the members of the Legislative Auditing Committee who may take action pursuant to s. 11.40. The Governor or the Commissioner of Education, as appropriate, shall determine whether the local governmental entity or the district school board needs state assistance to resolve or prevent the condition. If state assistance is needed, the local governmental entity or district school board is considered to be in a state of financial emergency. The Governor or the Commissioner of Education, as appropriate, has the authority to implement measures as set forth in ss. 218.50-218.504 to assist the local governmental entity or district school board in resolving the financial emergency. Such measures may include, but are not limited to:

- (a) Requiring approval of the local governmental entity's budget by the Governor or approval of the district school board's budget by the Commissioner of Education.
- (b) Authorizing a state loan to a local governmental entity and providing for repayment of same.
- (c) Prohibiting a local governmental entity or district school board from issuing bonds, notes, certificates of indebtedness, or any other form of debt until such time as it is no longer subject to this section.

(d) Making such inspections and reviews of records, information, reports, and assets of the local governmental entity or district school board as are needed. The appropriate local officials shall cooperate in such inspections and reviews.

(e) Consulting with officials and auditors of the local governmental entity or the district school board and the appropriate state officials regarding any steps necessary to bring the books of account, accounting systems, financial procedures, and reports into compliance with state requirements.

(f) Providing technical assistance to the local governmental entity or the district school board.

(g)1. Establishing a financial emergency board to oversee the activities of the local governmental entity or the district school board. If a financial emergency board is established for a local governmental entity, the Governor shall appoint board members and select a chair. If a financial emergency board is established for a district school board, the State Board of Education shall appoint board members and select a chair. The financial emergency board shall adopt such rules as are necessary for conducting board business. The board may:

a. Make such reviews of records, reports, and assets of the local governmental entity or the district school board as are needed.

b. Consult with officials and auditors of the local governmental entity or the district school board and the appropriate state officials regarding any steps necessary to bring the books of account, accounting systems, financial procedures, and reports of the local governmental entity or the district school board into compliance with state requirements.

c. Review the operations, management, efficiency, productivity, and financing of functions and operations of the local governmental entity or the district school board.

d. Consult with other governmental entities for the consolidation of all administrative direction and support services, including, but not limited to, services for asset sales, economic and community development, building inspections, parks and recreation, facilities management, engineering and construction, insurance coverage, risk management, planning and zoning, information systems, fleet management, and purchasing.

2. The recommendations and reports made by the financial emergency board must be submitted to the Governor for local governmental entities or to the Commissioner of Education and the State Board of Education for district school boards for appropriate action.

(h) Requiring and approving a plan, to be prepared by officials of the local governmental entity or the district school board in consultation with the appropriate state officials, prescribing actions that will cause the local governmental entity or district school board to no longer be subject to this section. The plan must include, but need not be limited to:

1. Provision for payment in full of obligations outlined in subsection (1), designated as priority items, which are currently due or will come due.

2. Establishment of priority budgeting or zero-based budgeting in order to eliminate items that are not affordable.

3. The prohibition of a level of operations which can be sustained only with nonrecurring revenues.

4. Provisions implementing the consolidation, sourcing, or discontinuance of all administrative direction and support services, including, but not limited to, services for asset sales, economic and community development, building inspections, parks and recreation, facilities management, engineering and construction, insurance coverage, risk management, planning and zoning, information systems, fleet management, and purchasing.

(4)(a) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the charter school, the charter school sponsor or the sponsor's designee and the Commissioner of Education shall contact the charter school governing body to determine what actions have been taken by the charter school governing body to resolve or prevent the condition. The Commissioner of Education has the authority to require and approve a financial recovery plan, to be prepared by the charter school governing body, prescribing actions that will resolve or prevent the condition.

(b) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the charter technical career center, the charter technical career center sponsor or the sponsor's designee and the Commissioner of Education shall contact the charter technical career center governing body to determine what actions have been taken by the governing body to resolve or prevent the condition. The Commissioner of Education may require and approve a financial recovery plan, to be prepared by the charter technical career center governing body, prescribing actions that will resolve or prevent the condition.

(c) The Commissioner of Education shall determine if the charter school or charter technical career center needs a financial recovery plan to resolve the condition. If the Commissioner of Education determines that a financial recovery plan is needed, the charter school or charter technical career center is considered to be in a state of financial emergency.

The Department of Education, with the involvement of sponsors, charter schools, and charter technical career centers, shall establish guidelines for developing a financial recovery plan.

(5) A local governmental entity or district school board may not seek application of laws under the bankruptcy provisions of the United States Constitution except with the prior approval of the Governor for local governmental entities or the Commissioner of Education for district school boards.

(6) The failure of the members of the governing body of a local governmental entity or the failure of the members of a district school board to resolve a state of financial emergency constitutes malfeasance, misfeasance, and neglect of duty for purposes of s. 7, Art. IV of the State Constitution.

History.—s. 8, ch. 79-183; s. 54, ch. 89-169; s. 1180, ch. 95-147; s. 27, ch. 96-324; s. 29, ch. 97-96; s. 132, ch. 99-251; s. 1, ch. 2001-354; s. 35, ch. 2004-305; s. 5, ch. 2006-190; s. 6, ch. 2007-6; s. 5, ch. 2009-214; s. 21, ch. 2011-144; s. 2, ch. 2012-38.



State of Florida Rules of the Auditor General

**RULES
OF THE
AUDITOR GENERAL**



**CHAPTER 10.550
LOCAL GOVERNMENTAL ENTITY AUDITS
EFFECTIVE 9-30-18**

RULES OF THE AUDITOR GENERAL
CHAPTER 10.550

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PREFACE TO RULES

Audits of certain “local governmental entities” are required by Florida Statutes. These various statutes may (and certain of the statutes do) describe who or what is to be audited; describe when, where, how, and by whom the audits are to be made; and require that certain standards and procedures be followed.

Certain of these statutes use various terms that may have common meanings. However, a number of these terms such as “State single audit,” “financial audit,” “management letter,” “county agency,” and “local governmental entity” have statutory definitions. When defined by statute, the statutory definitions prevail over other definitions.

Auditors are cautioned that, in general, these rules neither repeat nor paraphrase the statutory provisions. Hence, knowledge of statutory provisions is the responsibility of individual auditors.

These rules are intended to and do implement, interpret, or make specific certain statutory provisions that are within the authority of the Auditor General to implement, interpret, or make specific. However, the rules are not intended to supersede, nor do the rules impinge on, the authority of the Board of Accountancy in the regulation of the practice of accountancy as authorized by Chapter 473, Florida Statutes.

These rules are intended to implement the provisions of Section 218.39(1), Florida Statutes, which prescribes the requirements for financial audits; Section 215.97(8)(a), Florida Statutes, which prescribes the requirements for Florida Single Audit Act audits; and Section 288.8018, Florida Statutes, which prescribes the requirements for audits of entities that received or expended funds related to the Deepwater Horizon Oil Spill. Where applicable, the contents of the audit report required by Rule 10.557(3) to be submitted by each local governmental entity shall include the reports and related financial information required for an audit conducted pursuant to Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as the reports and information specified for financial and Florida Single Audit Act audit reports. It is the intent of these rules that the auditor shall combine required reports and schedules to the extent possible under these laws and shall avoid including duplicate findings in the various reports, schedules, and management letter.

Sections 215.97(2)(a) and 215.97(8)(a), Florida Statutes, provide that each nonstate entity that expends a total amount of state financial assistance equal to or in excess of \$750,000 in any fiscal year of such nonstate entity shall be required to have an audit for such year in accordance with the Florida Single Audit Act.

Section 218.31(1), Florida Statutes, defines a local governmental entity, for purposes of Section 218.39, Florida Statutes, to mean a county agency, municipality, or special district but not a housing authority established under Chapter 421, Florida Statutes. Section 215.97(2)(k), Florida Statutes, defines a local governmental entity, for purposes of the Florida Single Audit Act, to include, in addition to a county as a whole, municipality, and special district, any other entity (other than a district school board, charter school, or State college or university) that independently exercises any type of governmental function within the State. Entities required to have audits in accordance with the Florida Single Audit Act that meet the definition in Section 215.97(2)(k), Florida Statutes, but are not local governmental entities as defined for purposes of Section 218.39, Florida Statutes, shall comply with these rules except that the management letter is required to include only the items prescribed by Rule 10.554(1)(i)3. and 4. Rules 10.556(7) through 10.556(10) do not apply to the scope of such audits.

Note: All statutory references are to the 2018 Florida Statutes.

History: New 06-30-92
Last Amended 09-30-18

10.551 PURPOSE

- (1) Local governmental entities located in Florida are, in general, required by Florida law (Section 218.39, Florida Statutes) to have an annual “financial audit.” Under Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), a local governmental entity may also be required to have an audit of Federal awards.
- (2) The Comptroller General of the United States has adopted professional auditing standards for the audit of entities, including “local governmental entities,” receiving Federal awards. These standards are contained in the publication titled *Government Auditing Standards*.
- (3) Under the Florida Single Audit Act (Section 215.97, Florida Statutes) and Department of Financial Services Rules, Chapter 69I-5, Florida Administrative Code, *State Financial Assistance*, a local governmental entity may also be required to have an annual audit of State financial assistance. The audit threshold defined in Rule 10.554(1)(b) applies to audits of State financial assistance. Under Florida law, a local governmental entity “financial audit” would include an audit of State financial assistance.
- (4) The Auditor General has adopted the auditing standards set forth in *Government Auditing Standards* as the standards for auditing local governmental entities pursuant to Florida law. Hence, the same auditing standards are applicable to Federal awards audits, State financial assistance audits, and financial audits required by Florida law and should eliminate duplication of audit activity.
- (5) There are statutory differences between Federal and Florida audit requirements as to what is to be audited. There may also be differences in the way similar terms are defined in Federal law and Florida law. Auditors shall preserve these distinctions.
- (6) The purpose of these rules is to implement, interpret, or make specific various provisions of Sections 11.45, 215.97, and 288.8018, Florida Statutes.
- (7) These rules will also form the basis of the review of local governmental entity audit reports and financial reporting packages pursuant to Sections 11.45(7)(b) and 215.97(12)(f), Florida Statutes.

General Authority and Law Implemented - Sections 11.45, 215.97, and 288.8018, Florida Statutes.

History: New 08-01-86

Last Amended 09-30-17

10.552 RULES OF CONSTRUCTION

- (1) Applicable provisions of Florida law and expressed provisions of these rules shall prevail over conflicting provisions of material incorporated by reference.
- (2) Audits of non-Federal resources shall be guided by Florida law and these rules, and audits of Federal awards shall be guided by Federal law and applicable provisions of Florida law.

10.553 PUBLICATIONS INCORPORATED BY REFERENCE

For purposes of these rules, the following material is incorporated by reference and shall be followed when applicable.

- (1) *Codification of Governmental Accounting and Financial Reporting Standards* promulgated by the Governmental Accounting Standards Board (GASB), effective for the fiscal year ending September 30, 2018.
- (2) *AICPA Professional Standards* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ending September 30, 2018.
- (3) *Government Auditing Standards* (2011 Revision) issued by the Comptroller General of the United States.
- (4) *Audit & Accounting Guide—State and Local Governments* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ending September 30, 2018.
- (5) *Audit & Accounting Guide—Health Care Entities* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ending September 30, 2018.
- (6) *Audit Guide—Government Auditing Standards and Single Audits* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ending September 30, 2018.
- (7) Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
- (8) *Accounting Standards Codification* promulgated by the Financial Accounting Standards Board (FASB), effective for the fiscal year ending September 30, 2018.
- (9) Department of Financial Services Rules, Chapter 69I-5, Florida Administrative Code, *State Financial Assistance*.

General Authority and Law Implemented - Sections 11.45, 215.97, and 288.8018, Florida Statutes.

History: New 08-01-86
Last Amended 09-30-18

10.554**DEFINITIONS**

- (1) As used in these rules, the term:
- (a) “Affidavit” means the affidavit required by Section 163.31801(4), Florida Statutes, for local governmental entities that adopted an impact fee by ordinance or resolution.
 - (b) “Audit threshold” means the threshold amount used to determine when a State single audit or a project-specific audit of a nonstate entity shall be conducted in accordance with Section 215.97, Florida Statutes. Each nonstate entity that expends a total amount of State financial assistance equal to or in excess of \$750,000 in any fiscal year of such nonstate entity is required to have a State single audit, or a project-specific audit for such fiscal year in accordance with the requirements of Section 215.97, Florida Statutes. (Section 215.97(2)(a), Florida Statutes.)
 - (c) “Auditor” means an independent certified public accountant licensed pursuant to Chapter 473, Florida Statutes, and retained and paid by a local governmental entity to perform an audit pursuant to Sections 218.39(1) and 215.97(8), Florida Statutes.
 - (d) “County agency” means a board of county commissioners or other legislative and governing body of a county, however styled, including that of a consolidated or metropolitan government, a clerk of the circuit court, a separate or ex officio clerk of the county court, a sheriff, a property appraiser, a tax collector, a supervisor of elections, or any other officer in whom any portion of the fiscal duties of the above are under law separately placed. (Section 11.45(1)(b), Florida Statutes.)
 - (e) “County audit report” means a single document that includes a financial audit of the county as a whole and, for each county agency other than a board of county commissioners, an audit of its financial accounts and records, including reports on internal controls and compliance, reports on compliance requirements, management letters, and financial statements as required by Rule 10.557. In addition, if a board of county commissioners elects to have a separate financial audit of its financial accounts and records, such separate audit shall be in the manner required by these rules, and included in the county audit report. (Section 218.39(2), Florida Statutes.)
 - (f) “Deteriorating financial condition” means a circumstance determined as of the fiscal year end that significantly impairs a county, municipality, or special district’s ability to generate enough revenues to meet its expenditures without causing a condition described in Section 218.503(1), Florida Statutes, to occur.
 - (g) “Generally accepted accounting principles” are those accounting principles generally accepted in the United States of America, as defined by the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1000 *The Hierarchy of Generally Accepted Accounting Principles*.
 - (h) “Government Auditing Standards” are those audit standards set forth in the publication *Government Auditing Standards* (2011 Revision) issued by the Comptroller General of the United States.

- (i) “Management letter” means a statement of the auditor’s comments and recommendations. This letter shall be prepared and included as a part of each audit report pursuant to Section 218.39(4), Florida Statutes, and Rule 10.557(3)(g). Unless otherwise required to be reported in the auditor’s report on internal control and compliance or schedule of findings and questioned costs (see Rule 10.554(1)(l)), the management letter shall include, but not be limited to:
1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report not otherwise addressed in the auditor’s report pursuant to Rule 10.557(3)(b), (c), (d), or (e). If an audit finding in the preceding financial audit report is uncorrected, the auditor shall determine whether the finding was also included in the second preceding fiscal year financial audit report. Uncorrected findings in the current fiscal year audit report shall cite the finding reference numbers used in the preceding and, as applicable, the second preceding fiscal year financial audit reports.
 2. Any recommendations to improve the local governmental entity’s financial management.
 3. Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. **Note:** Fraud, noncompliance with provisions of laws or regulations and contracts or grants agreements, or abuse that does not warrant the attention of those charged with governance, or internal control deficiencies that are not material weaknesses or significant deficiencies may be reported in the management letter based on professional judgment.
 4. The name or official title and legal authority for the primary government and each component unit of the reporting entity as defined in publications cited in Rule 10.553, unless disclosed in the notes to the financial statements. Legal authority includes the general law, special acts, ordinances, resolutions, or other means by which the local governmental entity was created and is governed. For county agencies, legal authority disclosure shall include a reference to a county charter, if applicable.
 5. For counties as a whole, municipalities, and special districts:
 - a. A statement describing the results of the auditor’s determination as to whether or not the entity met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. (See also Rule 10.558(1).)
 - b. The following information regarding the auditor’s application of financial condition assessment procedures pursuant to Rule 10.556(8):
 - 1) A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.556(8).

- 2) If a deteriorating financial condition(s) is noted, a statement that the entity's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor reported that the entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes (see Rule 10.554(1)(i)5.a. above), this statement shall indicate whether such condition(s) resulted from a deteriorating financial condition(s). Findings regarding deteriorating financial conditions shall be prepared in accordance with Rule 10.557(4)(b).
 - c. If appropriate, a statement indicating the failure of a special district that is a component unit of a county, municipality or special district, to provide the financial information necessary to a proper reporting of the component unit within the audited financial statements of the county, municipality, or special district. (Section 218.39(3)(b), Florida Statutes.)
6. For water management districts:
- a. A statement describing the results of the auditor's determination as to whether or not the district provided monthly financial statements to its governing board and posted the monthly financial statements on its Web site. (See Sections 215.985(11) and 373.536(4)(e), Florida Statutes.)
 - b. A statement describing the results of the auditor's determination as to whether or not the district provided a link on its Web site to the Florida Department of Financial Services' Web site to allow viewing of the district's annual financial report. (See Section 218.32(1)(g), Florida Statutes.)
 - c. A statement describing the results of the auditor's determination as to whether or not the district posted its tentative and final budgets on its Web site. (See Section 373.536(5)(d) and (6)(d), Florida Statutes.)
- (j) "Pass-through entity" means a local governmental entity that provides State financial assistance to a subrecipient to carry out a State project.
 - (k) "Schedule of Expenditures of State Financial Assistance" refers to a schedule prepared in accordance with the requirements of Department of Financial Services Rules, Chapter 69I-5, Florida Administrative Code, State Financial Assistance.
 - (l) "Schedule of Findings and Questioned Costs relating to State Financial Assistance" refers to a schedule prepared by the auditor and included as part of each audit report submitted pursuant to Section 215.97(8)(g), Florida Statutes. The schedule shall include:
 1. A summary of the auditor's results, including:

- a. The type of report the auditor issued on the financial statements of the auditee (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
 - b. Where applicable, a statement that significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
 - c. A statement as to whether the audit disclosed any noncompliance that was material to the financial statements of the auditee;
 - d. Where applicable, a statement that significant deficiencies or material weaknesses in internal control over major State projects were disclosed by the audit;
 - e. The type of report the auditor issued on compliance for major State projects (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
 - f. A statement as to whether the audit disclosed any audit findings that the auditor was required to report under Rule 10.557;
 - g. An identification of major State projects; and
 - h. The calculated dollar threshold used to distinguish between Type A and Type B projects as described in Department of Financial Services Rules, Chapter 69I-5, Florida Administrative Code, State Financial Assistance.
2. Findings relating to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.
 3. Findings and questioned costs for State financial assistance, which shall include audit findings as described in Rule 10.554(1)(l)4.
 - a. Audit findings (e.g., internal control findings, compliance findings, questioned costs, fraud, or significant instances of abuse) that relate to the same issue shall be presented as a single finding. Where practical, audit findings shall be organized by State awarding agency or pass-through entity.
 - b. Audit findings reported under (l)2. and (l)3.a. of this subsection, shall clearly indicate whether they relate to the financial statements and State financial assistance, respectively, and shall be reported in a manner that avoids duplication of findings within the schedule.
 4. The following audit findings:
 - a. Deficiencies in internal control over major State projects that are determined to be a material weakness either individually or in combination. Material weaknesses may include reportable conditions in internal controls that are referred to in Section 215.97(8)(i), Florida Statutes. The auditor's determination of whether a deficiency in internal control is a material weakness is in relation to a type of compliance requirement for a major State

project or an audit objective identified in the compliance supplement.

- b. Deficiencies in internal control over major State projects that are determined to be significant deficiencies. Significant deficiencies may include reportable conditions in internal controls that are referred to in Section 215.97(8)(i), Florida Statutes. The auditor's determination of whether a deficiency in internal control is a significant deficiency is in relation to a type of compliance requirement for a major State project or an audit objective identified in the compliance supplement.
- c. Material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major State project. The auditor's determination of whether a noncompliance with provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding in this schedule is in relation to a type of compliance requirement for a major State project or an audit objective identified in the compliance supplement.
- d. Known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major State project. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major State project. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.
- e. Known questioned costs that are greater than \$25,000 for a State project that is not audited as a major State project. Except for audit follow-up, the auditor is not required to perform audit procedures for such a State project; therefore, the auditor will normally not find questioned costs for a project that is not audited as a major State project. However, if the auditor does become aware of questioned costs for a State project that is not audited as a major State project (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the auditor shall report this as an audit finding.
- f. The circumstances concerning why the auditor's report on compliance for major State projects is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs relating to State financial assistance.
- g. Known fraud affecting a major State project, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs relating to State financial assistance. This does not require the auditor to make an additional reporting when the auditor confirms that the fraud was reported outside of the

auditor's reports under the direct reporting requirements of *Government Auditing Standards*.

- h. Significant instances of abuse relating to a major State project. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, or grant agreements.
 - i. Instances where the results of auditor follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with Rule 10.557(3)(e)5. materially misrepresents the status of any prior audit finding.
- (m) "Summary Schedule of Prior Audit Findings" means a schedule that reports the status of any audit findings included in the prior audit's schedule of findings and questioned costs relating to State financial assistance. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected or no longer valid or not warranting further action. The schedule shall include the audit finding reference number required by Rule 10.557(4)(b)7.
 - 1. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
 - 2. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
 - 3. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan, the summary schedule shall provide an explanation.
 - 4. When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that two years have passed since the audit report containing the finding was submitted to the State awarding agency and the State awarding agency or pass-through entity is not currently following up with the auditee on the audit finding.

10.556 SCOPE OF THE FINANCIAL AUDIT AND FLORIDA SINGLE AUDIT ACT AUDIT

- (1) It is the intent of these rules to make *Government Auditing Standards* applicable in the State of Florida to audits of local governmental entities required to be audited pursuant to Section 218.39(1) or 215.97, Florida Statutes.
- (2) The scope of a “financial audit” shall include:
 - a. An examination of financial statements to determine whether they are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
 - b. An examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements.
 - c. An examination of any additional financial information necessary to comply with generally accepted accounting principles.
- (3) For entities other than county agencies, the financial statements referred to in paragraph (2)(a) are basic financial statements as identified by Section 2200.102b. of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*. In addition, the basic financial statements shall be accompanied by: (1) management’s discussion and analysis, as identified by Section 2200.102a. of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, and (2) other required supplementary information, as identified by Section 2200.102c. of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*.
- (4) For the separate audits of boards of county commissioners and other county agencies (see Rule 10.554(1)(d)), the financial statements referred to in Rule 10.556(2)(a) are the fund financial statements (Section 2200.102b.(2) of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*), except that the reconciliations referred to in Section 2200.160 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, are not required. If a county agency elects to present government-wide financial statements (Section 2200.102b.(1) of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*), in addition to the required fund financial statements, the reconciliations required by Section 2200.160 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* shall be presented for the individual county agency.
- (5) The scope of the financial audit shall include any additional activities necessary to establish compliance with the term “financial statement audit” as defined and used in *Government Auditing Standards*.
- (6) When applicable, the scope of the financial audit shall encompass the additional activities necessary to establish compliance with Uniform Guidance; other applicable Federal law; and the Florida Single Audit Act.
- (7) For counties as a whole, municipalities, and special districts, the scope of the financial audit shall include appropriate procedures, based on the auditor’s professional judgment, to determine whether or not the entity met one or more of the conditions described in Section 218.503(1), Florida Statutes.
- (8) For counties as a whole, municipalities, and special districts, the scope of the financial audit shall include the use of financial condition assessment procedures in determining

whether deteriorating financial conditions exist pursuant to Section 218.39(5)(a), Florida Statutes. The auditor is responsible for assessing financial condition and the methodology used is a matter of professional judgment. Example financial condition assessment indicators and related procedures are available on the Auditor General Web site. The financial condition assessment shall be done as of the fiscal year end; however, the auditor shall give consideration to subsequent events, through the date of the audit report, that could significantly impact the entity's financial condition.

- (9) For water management districts, the scope of the financial audit shall include appropriate procedures, based on the auditor's professional judgment, to determine whether or not the water management district provided monthly financial statements to its governing body and posted on its Web site the monthly financial statements (see Sections 215.985(11) and 373.536(4)(e), Florida Statutes), a link to the Florida Department of Financial Services Web site to allow viewing of the district's annual financial report (see Section 218.32(1)(g), Florida Statutes), and its tentative and final budgets (see Section 373.536(5)(d) and (6)(d), Florida Statutes).
- (10) The scope of the financial audit shall include an examination pursuant to *AICPA Professional Standards*, AT-C Section 315, promulgated by the American Institute of Certified Public Accountants, to determine the following, as applicable:
 - a. For county agencies, municipalities, and special districts, a determination of the entity's compliance with the requirements of Section 218.415, Florida Statutes.
 - b. For counties that received E911 funds, a determination that all E911 fee revenues, interest, and E911 grant funding were used for payment of authorized expenditures, as specified in Section 365.172(10), Florida Statutes, and as specified in the E911 Board grant and special disbursement programs (see Section 365.173(2)(d), Florida Statutes).
 - c. For clerks of the courts, a determination of the clerk's compliance with the requirements of Sections 28.35 and 28.36, Florida Statutes.
 - d. For clerks of the courts, a determination of the clerk's compliance with Section 61.181, Florida Statutes.
 - e. For county agencies, municipalities, and special districts that received or expended funds related to the Deepwater Horizon oil spill, that are not Federal awards audited as major programs or State financial assistance audited as major projects: a determination of the entity's compliance with Federal and State laws, rules, regulations, contracts, or grant agreements related to the receipt and expenditure of the funds (see Section 288.8018(1), Florida Statutes). The scope of the financial audit shall include additional activities necessary to prepare the report required in Rule 10.557(3)(f).

Note: A Compliance Supplement is available on the Auditor General Web site to assist auditors with these requirements.

10.557 **AUDIT REPORT**

- (1) To the extent possible, the auditor shall combine required reports and schedules and shall avoid including duplicate findings in the various reports, schedules, and management letter.
- (2) Each audit report shall comply with the applicable reporting standards as contained in the publications referenced in Rule 10.553.
- (3) Each audit report submitted pursuant to Sections 218.39(7) and 215.97(8)(g), Florida Statutes, and these rules, shall be a single document and contain at least the following:
 - (a) A table of contents.
 - (b) The auditor's report on the basic financial statements and report on internal control and compliance. The reports shall be based on an audit of the financial statements conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*.
 - (c) The auditor's report based on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, promulgated by the American Institute of Certified Public Accountants, regarding the compliance requirements referenced in Rule 10.556(10). The report shall be prepared in accordance with AT-C Section 315.20.
 - (d) Any other auditor's reports, related financial information, and auditee-prepared documents required pursuant to Uniform Guidance and other applicable Federal law.
 - (e) For counties as a whole, municipalities, and special districts, auditor's reports and related financial information required pursuant to the Florida Single Audit Act and these rules as described below. These reports and information may be combined with the similar reports and information required by Uniform Guidance; however, the State financial assistance and related findings shall be clearly distinguished from the Federal awards and related findings in such reports and information. Florida Single Audit Act reports and related financial information shall include:
 1. A schedule of expenditures of State financial assistance prepared in accordance with Department of Financial Services Rules, Chapter 69I-5, Florida Administrative Code, State Financial Assistance. This schedule shall be included on the schedule of expenditures of Federal awards, where applicable.
 2. A report that includes an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of State financial assistance is presented fairly in all material respects in relation to the financial statements taken as a whole. This report shall include the elements prescribed by the American Institute of Certified Public Accountants *Audit Guide – Government Auditing Standards and Single Audits*, modified as appropriate to apply to an audit conducted in accordance with the Florida Single Audit Act and these rules.

3. A report on compliance with requirements that could have a direct and material effect on each major State project and on internal control over compliance. This report shall describe the scope of testing of internal control and the results of those tests and shall include an opinion (or disclaimer of opinion) as to whether the auditee complied with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on a major State project. Where applicable, this report shall refer to the separate schedule of findings and questioned costs relating to State financial assistance (see Rule 10.554(1)(l)). The report shall include the elements prescribed by the American Institute of Certified Public Accountants *Audit Guide – Government Auditing Standards and Single Audits*, modified as appropriate to apply to an audit conducted in accordance with the Florida Single Audit Act and these rules.
 4. A schedule of findings and questioned costs relating to State financial assistance (see Rule 10.554(1)(l)).
 5. A summary schedule of prior audit findings, unless there were no prior audit findings to be reported on, in which case the auditor shall so indicate in the schedule of findings and questioned costs (see Rule 10.554(1)(m)).
 6. A corrective action plan as defined in Section 215.97(8)(i), Florida Statutes.
- (f) For any fiscal year in which funds related to the Deepwater Horizon oil spill are received or expended, a report that includes an opinion (or disclaimer of opinion) as to whether the schedule of receipts and expenditures of such funds required by Rule 10.557(3)(n) is presented fairly in all material respects in relation to the financial statements taken as a whole. The report shall be prepared in accordance with *AICPA Professional Standards*, AU-C Section 725, promulgated by the American Institute of Certified Public Accountants.
 - (g) The “management letter” required by Sections 218.39(4), 215.97(10)(f), and 215.97(11)(d), Florida Statutes, and defined in Rule 10.554(1)(i). Separate management letters are required for the county as a whole and for each county agency for which a separate audit was conducted pursuant to Section 218.39(2), Florida Statutes. The management letter for the county as a whole shall include all the elements of a management letter as prescribed in Rule 10.554(1)(i), while the separate county agency management letters shall include all the elements of a management letter as prescribed in Rule 10.554(1)(i) except as otherwise indicated in Rules 10.554(1)(i)5. and 6. For those findings that are specific to a particular county agency, the management letter for the county as a whole may make reference to the separate county agency management letters rather than duplicating such findings included in the separate county agency management letters.
 - (h) A “management’s discussion and analysis” as required by Sections 2200.106 through 2200.109 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* except that the “management’s discussion and analysis” is not required for the separate audits of county agencies (see Rule 10.554(1)(e)).
 - (i) The basic financial statements and other required supplementary information as described in Rules 10.556(3) and (4). Reporting options allowed by generally

accepted accounting principles shall be applied consistently for the countywide and individual county agency financial statements, and among the county agencies within a particular county. The notes to the financial statements shall include the disclosures required by Section 2300 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, except as provided in (j), below.

- (j) The notes to the financial statements presented in the separate audits of county agencies may supplement rather than duplicate the notes to the financial statements included in the countywide financial statements. If a particular disclosure for a county agency is adequately presented in the notes to the countywide financial statements, disclosure may be made in the notes to the county agency financial statements by reference to the notes to the countywide financial statements. The notes to the financial statements of a county agency are only required for elements actually reported in the county agency statements. If the county agency presents government-wide financial statements, the notes shall include disclosures related to capital assets and long-term liabilities. If the county agency only presents fund financial statements, capital assets and long-term liabilities note disclosures are required only for those capital assets and long-term liabilities presented in proprietary fund (internal service funds and enterprise funds) financial statements.
- (k) Required supplementary information for separate audits of county agencies shall include a budgetary comparison schedule as required by Sections 2200.206 and 2200.207 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* unless presented as part of the basic financial statements. Other required supplementary information of a county agency is only required for elements actually reported in the county agency statements. If the county agency presents government-wide financial statements, the required supplementary information shall include disclosures related to capital assets and long-term liabilities. If the county agency only presents fund financial statements, capital assets and long-term liabilities required supplementary information is required only for those capital assets and long-term liabilities presented in proprietary fund (internal service funds and enterprise funds) financial statements.
- (l) The written statement of explanation or rebuttal required by Rule 10.558(1). Such written statement of explanation or rebuttal should include the finding reference number used by the auditor in the auditor's report. (See also Rule 10.557(4)(b)7.)
- (m) For county agencies, municipalities, and special districts that adopted an impact fee by ordinance or resolution during the fiscal year, an "affidavit" signed and sworn to by the Chief Financial Officer before an officer authorized to administer oaths (e.g., notary public), stating that the entity complied with the requirements of Section 163.31801(4), Florida Statutes.
- (n) For any fiscal year in which funds related to the Deepwater Horizon oil spill are received or expended, a schedule of receipts and expenditures of such funds that are not Federal awards or State financial assistance reported on the schedule of expenditures of Federal awards or schedule of expenditures of State financial assistance. The schedule shall show for each source of such funds the amounts received and expended during the fiscal year. The schedule shall include a note referencing any Deepwater Horizon oil spill related expenditures reported on the

schedule of expenditures of Federal awards or schedule of expenditures of State financial assistance, including the Catalog of Federal Domestic Assistance or Catalog of State Financial Assistance number(s).

(4) Other reporting requirements:

- (a) The financial statements as described in Rule 10.556(4) and included in the separate county agency audit report pursuant to Rule 10.557(3)(i) are financial statements that do not constitute a complete presentation of a county but otherwise constitute financial statements prepared in conformity with generally accepted accounting principles. Separate financial statements prepared for the board of county commissioners shall include any component units of the board of county commissioners. Auditor's reports on county agency financial statements shall be prepared in accordance with the *AICPA Professional Standards*, AU-C Section 805, promulgated by the American Institute of Certified Public Accountants (a sample county agency auditor's report on the financial statements is available on the Auditor General Web site). All county agency audit reports shall be included in the county audit report submitted to the Auditor General pursuant to Sections 218.39(7) and 215.97(8)(g), Florida Statutes.
- (b) Audit findings contained in reports, schedules, and management letters shall include the following specific information:
 - 1. The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
 - 2. The condition found, including facts that support the condition identified in the audit finding.
 - 3. The cause, or the reason or explanation for the condition or the factor(s) responsible for the difference between the situation that exists (condition) and the required or desired state (criteria).
 - 4. The effect or potential effect (i.e., outcome or consequence) of the condition. This should include information to provide proper perspective for judging the prevalence and consequences of the audit finding, such as whether the audit finding represented an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined, and shall be quantified in terms of dollar value.
 - 5. Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
 - 6. Views of responsible officials of the local governmental entity concerning the audit findings, conclusions, and recommendations, as well as any planned corrective action.
 - 7. Reference number for each audit finding.
- (c) Audit findings included in the schedule of findings and questioned costs related to State financial assistance shall include the following additional information:
 - 1. State project identification including the Catalog of State Financial Assistance number and year, name of the State awarding agency, and

name of any applicable pass-through entity. When any such information is not available, the auditor shall provide the best information available to describe the State financial assistance.

2. Identification of questioned costs and how they were computed.

10.558 DELIVERY OF AUDIT REPORT AND AUDITEE'S RESPONSE

- (1) To promote uniformity in the conduct of financial audits and to provide the public with the auditee's explanations of corrective action designed to prevent recurrence of any findings in the auditor's reports and management letter, a written statement of explanation or rebuttal concerning the auditor's findings and recommendations, including corrective action to be taken, shall be filed with the governing body of the local governmental entity within 30 days after delivery of the auditor's findings to be included in the auditor's reports or management letter prepared pursuant to Section 218.39(4), Florida Statutes. The written statement shall include corrective actions taken, or to be taken, regarding one or more conditions reported by the auditor pursuant to Rule 10.554(1)(i)5.a., or a deteriorating financial condition(s) reported pursuant to Rule 10.554(1)(i)5.c.2) (Section 218.39(6) and (7), Florida Statutes).
- (2) The auditor shall provide a copy of the audit report to management, each member of the governing body of the local governmental entity, each member of an audit committee charged with governance as defined in *AICPA Professional Standards*, AU-C Section 260.06, and the head of the governing body of all component units included in the audit. Copies of a State financial assistance recipient's audit report shall be submitted to the recipient organization, State awarding agencies, and the Auditor General. Copies of a subrecipient's audit report shall be submitted to the recipient organization that provided the State financial assistance.
- (3) Copies of the audit report required to be submitted pursuant to Sections 218.39(7) and 215.97(8)(g), Florida Statutes, including the auditee's responses thereto, and the corrective action plans required for the Federal awards and Florida Single Audit Act audits, shall be submitted to the Auditor General and State awarding agencies (if applicable) within 45 days after delivery of the audit report to the local governmental entity but no later than 9 months after the end of the fiscal year of the local governmental entity. One paper copy and one electronic copy of the audit report shall be submitted to the Auditor General at the following mailing address and e-mail address, respectively:

Auditor General
Local Government Audits/342
Claude Pepper Building, Room 401
111 West Madison Street
Tallahassee, Florida 32399-1450

flaudgen_localgovt@aud.state.fl.us

The State awarding agencies, if applicable, will specify the number of copies and format of the audit report required to be submitted to them. The date that the audit report was delivered to the local governmental entity shall be indicated by the local governmental entity in the [submittal checklist](#) accompanying the audit report submitted to the Auditor General pursuant to Section 218.39(7), Florida Statutes.

10.559

EFFECTIVE DATE

These rules, as amended, shall take effect for fiscal years ending September 30, 2018, and thereafter.

General Authority and Law Implemented - Sections 11.45, 215.97, and 288.8018, Florida Statutes.

History: New 08-01-86
 Last Amended 09-30-18



SAS 114 and 115

AU Section 380***The Auditor's Communication With Those Charged With Governance***

(Supersedes SAS No. 61.)

Source: SAS No. 114.

Effective for audits of financial statements for periods beginning on or after December 15, 2006.

.01 This section establishes standards and provides guidance on the auditor's communication with those charged with governance in relation to an audit of financial statements.¹ Although this section applies regardless of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity. This section does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

.02 This section has been drafted in terms of an audit of financial statements, but may also be applied, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation and presentation of the other historical financial information.

.03 For purposes of this section:

- a. *Those charged with governance* means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases management has this responsibility). For entities with a board of directors, this term encompasses the term *board of directors* or *audit committee* used elsewhere in generally accepted auditing standards.
- b. *Management* means the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.

.04 Recognizing the importance of effective two-way communication to the audit, this section provides a framework for the auditor's communication with those charged with governance and identifies some specific matters to be communicated with them. Additional matters to be communicated are identified

¹ The provisions of this section apply to audits of financial statements prepared either in accordance with generally accepted accounting principles or in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. References in this section to generally accepted accounting principles are intended to also refer to other comprehensive bases of accounting when the reference is relevant to the basis of accounting used.

in other Statements on Auditing Standards (see Appendix A [paragraph .66]). Further matters may be communicated by agreement with those charged with governance or management, or in accordance with external requirements.

.05 The auditor must communicate with those charged with governance matters related to the financial statement audit that are, in the auditor's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

.06 Clear communication of specific matters in accordance with this section is an integral part of every audit. However, the auditor is not required to perform procedures specifically to identify other significant matters to communicate with those charged with governance.

The Role of Communication

.07 The principal purposes of communication with those charged with governance are to:

- a. Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the scope and timing of the audit.
- b. Obtain from those charged with governance information relevant to the audit.
- c. Provide those charged with governance with timely observations arising from the audit that are relevant to their responsibilities in overseeing the financial reporting process.

.08 This section focuses primarily on communications from the auditor to those charged with governance. However, effective two-way communication is also very important in assisting:

- a. The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity.
- b. The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events.
- c. Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.

.09 Although the auditor is responsible for communicating specific matters in accordance with this section, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility.

Legal Considerations

.10 In certain circumstances, the auditor may be required to report to a regulatory or enforcement body certain matters communicated with those charged with governance. For example, governmental auditing standards require auditors to report fraud, illegal acts, violations of provisions of contracts or grant

agreements, and abuse directly to parties outside the audited entity in certain circumstances.

.11 In rare circumstances, laws or regulations may prevent the auditor from communicating certain matters with those charged with governance, or others within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual or suspected illegal act. In such circumstances, it may be appropriate for the auditor to seek legal advice.

Those Charged With Governance

.12 The auditor should determine the appropriate person(s) within the entity's governance structure with whom to communicate. The appropriate person(s) may vary depending on the matter to be communicated.

.13 Governance structures vary by entity, reflecting influences such as size and ownership characteristics. For example:

- In some entities, those charged with governance hold positions that are an integral part of the entity's legal structure, for example, company directors. For other entities, a body that is not part of the entity may be charged with governance, as with some government agencies.
- In some cases, some or all of those charged with governance also have management responsibilities. In others, those charged with governance and management are different people.

.14 In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, such as the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup, such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities.

.15 Such diversity means that it is not possible for this section to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases the appropriate person(s) with whom to communicate may not be clearly identifiable from the engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. The auditor's understanding of the entity's governance structure and processes obtained in accordance with section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, is relevant in deciding with whom to communicate matters.

.16 When the appropriate person(s) with whom to communicate are not clearly identifiable, the auditor and the engaging party should agree on the relevant person(s) within the entity's governance structure with whom the auditor will communicate. When the entity being audited is a component² of a group,³ the appropriate person(s) with whom to communicate is dependent on the nature of the matter to be communicated and the terms of the engagement.

² *Component* means a head office, parent, division, branch, subsidiary, joint venture, associated company, equity investee, or other entity whose financial information is or should be included in the consolidated financial statements of a group.

³ *Group* means an entity whose consolidated financial statements include or should include financial information of more than one component.

Communication With the Audit Committee or Other Subgroup of Those Charged With Governance

.17 Audit committees (or similar subgroups with different names) exist in many entities. Although their specific authority and functions may differ, communication with the audit committee, where one exists, is a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:

- The auditor has access to the audit committee as necessary.
- The chair of the audit committee and, when relevant, the other members of the audit committee, meet with the auditor periodically.
- The audit committee meets with the auditor without management present at least annually.

.18 The auditor should evaluate whether communication with a subgroup of those charged with governance, such as the audit committee or an individual, adequately fulfills the auditor's responsibility to communicate with those charged with governance. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:

- The respective responsibilities of the subgroup and the governing body.
- The nature of the matter to be communicated.
- Relevant legal or regulatory requirements.
- Whether the subgroup (*a*) has the authority to take action in relation to the information communicated and (*b*) can provide further information and explanations the auditor may need.
- Whether the auditor is aware of potential conflicts of interest between the subgroup and other members of the governing body.
- Whether there is also a need to communicate the information, in full or in summary form, to the governing body. This decision may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor retains the right to communicate with the governing body, a fact the auditor may make explicit in the terms of the engagement.

Communication With Management

.19 Many matters may be discussed with management in the ordinary course of an audit, including matters to be communicated with those charged with governance in accordance with this section. Such discussions recognize management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the financial statements.

.20 Before communicating matters with those charged with governance, the auditor may discuss them with management unless that is inappropriate. For example, it may not be appropriate to discuss with management questions of management's competence or integrity. In addition to recognizing management's responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

When All of Those Charged With Governance Are Involved in Managing the Entity

.21 In some cases, all of those charged with governance are involved in managing the entity. In these cases, if matters required by this section are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role.

.22 When all of those charged with governance are involved in managing the entity, the auditor should consider whether communication with person(s) with financial reporting responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (See paragraphs .12 and .18.)

Matters to Be Communicated

.23 The auditor should communicate with those charged with governance:

- a. The auditor's responsibilities under generally accepted auditing standards (see paragraphs .26 through .28);
- b. An overview of the planned scope and timing of the audit (see paragraphs .29 through .33); and
- c. Significant findings from the audit (see paragraphs .34 through .44).

.24 Management's communication of these matters to those charged with governance does not relieve the auditor of the responsibility to also communicate them. However, communication of these matters by management may affect the form or timing of the auditor's communication.

.25 Nothing in this section precludes the auditor from communicating any other matters to those charged with governance.

The Auditor's Responsibilities Under Generally Accepted Auditing Standards

.26 The auditor should communicate with those charged with governance the auditor's responsibilities under generally accepted auditing standards, including that:

- a. The auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- b. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

These responsibilities may be communicated through the engagement letter, or other form of contract that records the terms of the engagement, if that letter or contract is provided to those charged with governance.

.27 The auditor may also communicate that:

- a. The auditor is responsible for performing the audit in accordance with generally accepted auditing standards and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

- b. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.
- c. The auditor is responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance.
- d. When applicable, the auditor is also responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement.

.28 Section 550, *Other Information in Documents Containing Audited Financial Statements*, addresses the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon.^[4] If the entity includes other information in documents containing audited financial statements, the auditor should communicate with those charged with governance the auditor's responsibility with respect to such other information, any procedures performed relating to the other information, and the results. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SAS Nos. 118–120.]

Planned Scope and Timing of the Audit

.29 The auditor should communicate with those charged with governance an overview of the planned scope and timing of the audit. However, it is important for the auditor not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable. Certain factors described in paragraph .53 may be relevant in determining the nature and extent of this communication.

.30 Communication regarding the planned scope and timing of the audit may:

- a. Assist those charged with governance in understanding better the consequences of the auditor's work for their oversight activities, discussing with the auditor issues of risk and materiality, and identifying any areas in which they may request the auditor to undertake additional procedures; and
- b. Assist the auditor to understand better the entity and its environment.

.31 Matters communicated may include the following:

- How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
- The auditor's approach to internal control relevant to the audit, including, when applicable, whether the auditor will express an opinion on the effectiveness of internal control over financial reporting.

^[4] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SAS Nos. 118–120.]

- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together.

.32 Other planning matters that the auditor may consider discussing with those charged with governance include:

- The views of those charged with governance about:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications with regulators.
 - Other matters those charged with governance believe are relevant to the audit of the financial statements.
- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control and (b) the detection or the possibility of fraud.
- The actions of those charged with governance in response to developments in financial reporting, laws, accounting standards, corporate governance practices, and other related matters.
- The actions of those charged with governance in response to previous communications with the auditor.

.33 While communication with those charged with governance may assist the auditor in planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

Significant Findings From the Audit

.34 The auditor should communicate with those charged with governance the following matters:

- a. The auditor's views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures (see paragraphs .37 and .38).
- b. Significant difficulties, if any, encountered during the audit (see paragraph .39).
- c. Uncorrected misstatements, other than those the auditor believes are trivial, if any (see paragraphs .40 and .41).
- d. Disagreements with management, if any, (see paragraph .42).

- e. Other findings or issues, if any, arising from the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.

.35 Unless all of those charged with governance are involved in managing the entity, the auditor also should communicate:

- a. Material, corrected misstatements that were brought to the attention of management as a result of audit procedures. The auditor also may communicate other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.
- b. Representations the auditor is requesting from management. The auditor may provide those charged with governance with a copy of management's written representations.
- c. Management's consultations with other accountants (see paragraph .43).
- d. Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management (see paragraph .44).

.36 The communication of significant findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.

Qualitative Aspects of the Entity's Significant Accounting Practices

.37 Generally accepted accounting principles provide for the entity to make accounting estimates and judgments about accounting policies and financial statement disclosures. Open and constructive communication about qualitative aspects of the entity's significant accounting practices may include comment on the acceptability of significant accounting practices. Appendix B [paragraph .67] provides guidance on the matters that may be included in this communication.

.38 The auditor should explain to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, request changes. If requested changes are not made, the auditor should inform those charged with governance that the auditor will consider the effect of this on the financial statements of the current and future years, and on the auditor's report.

Significant Difficulties Encountered During the Audit

.39 The auditor should inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit. Significant difficulties encountered during the audit may include such matters as:

- Significant delays in management providing required information.
- An unnecessarily brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.

- Restrictions imposed on the auditors by management.
- Management's unwillingness to provide information about management's plans for dealing with the adverse effects of the conditions or events that lead the auditor to believe there is substantial doubt about the entity's ability to continue as a going concern.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.

Uncorrected Misstatements

.40 Section 312, *Audit Risk and Materiality in Conducting an Audit*, requires the auditor to accumulate all known and likely misstatements identified during the audit, other than those that the auditor believes are trivial, and communicate them to the appropriate level of management. The auditor should communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction. In communicating the effect that material uncorrected misstatements may have on the opinion in the auditor's report, the auditor should communicate them individually. Where there are a large number of small uncorrected misstatements, the auditor may communicate the number and overall monetary effect of the misstatements, rather than the details of each individual misstatement.

.41 The auditor should discuss with those charged with governance the implications of a failure to correct known and likely misstatements, if any, considering qualitative as well as quantitative considerations, including possible implications in relation to future financial statements. The auditor should also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Disagreements With Management

.42 The auditor should discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or the auditor's report. Disagreements with management may occasionally arise over, among other things, the application of accounting principles to the entity's specific transactions and events and the basis for management's judgments about accounting estimates. Disagreements may also arise regarding the scope of the audit, disclosures to be included in the entity's financial statements, and the wording of the auditor's report. For purposes of this section, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.

Management's Consultations With Other Accountants

.43 In some cases, management may decide to consult with other accountants about auditing and accounting matters. When the auditor is aware that such consultation has occurred, the auditor should discuss with those charged with governance his or her views about significant matters that were the subject of such consultation.⁵

⁵ Circumstances in which the auditor should be informed of such consultations are described in paragraph .07 of section 625, *Reports on the Application of Accounting Principles*.

Significant Issues Discussed, or Subject to Correspondence, With Management

.44 The auditor should communicate with those charged with governance any significant issues that were discussed or were the subject of correspondence with management. Significant issues may include such matters as:

- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Discussions or correspondence in connection with the initial or recurring retention of the auditor including, among other matters, any discussions or correspondence regarding the application of accounting principles and auditing standards.

Independence

.45 Generally accepted auditing standards require independence for all audits. Relevant matters to consider in reaching a conclusion about independence include circumstances or relationships that create threats to auditor independence and the related safeguards that have been applied to eliminate those threats or reduce them to an acceptable level.⁶

.46 Although the auditor's report affirms the auditor's independence, in certain situations, particularly for public interest entities,⁷ the auditor may determine that it is appropriate to communicate with those charged with governance circumstances or relationships (for example, financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in the auditor's professional judgment may reasonably be thought to bear on independence and that the auditor gave significant consideration to in reaching the conclusion that independence has not been impaired.

.47 The form and timing of communications regarding independence may be affected by the entity's governance structure and whether a formal subgroup such as an audit committee exists. In situations where all of those charged with governance are involved in managing the entity, the auditor may determine that those charged with governance have been informed of relevant facts regarding the auditor's independence through their management activities or through other means, such as the engagement letter. This is particularly likely where the entity is owner-managed, and the auditor's firm has little involvement with the entity beyond a financial statement audit.

⁶ Comprehensive guidance on threats to independence and safeguards, including application to specific situations, is set forth in the AICPA's *Conceptual Framework for AICPA Independence Standards* [ET section 100-1].

⁷ In addition to entities subject to Securities and Exchange Commission reporting requirements, the *Conceptual Framework for AICPA Independence Standards* [ET section 100-1] considers the following entities to be *public interest entities*: (1) employee benefit and health and welfare plans subject to Employee Retirement Income Security Act audit requirements; (2) governmental retirement plans; (3) entities or programs (including for-profit entities) subject to Single Audit Act OMB Circular A-133 audit requirements and entities or programs subject to similar program oversight; and (4) financial institutions, credit unions, and insurance companies. These entities are public interest entities because their audited financial statements are directly relied upon by significant numbers of stakeholders to make investment, credit, or similar decisions or indirectly relied upon through regulatory oversight (for example, in the case of pension plans, banks, and insurance companies) and, therefore, the potential extent of harm to the public from an audit failure involving one of these entities would generally be significant.

The Communication Process

Establishing a Mutual Understanding

.48 The auditor should communicate with those charged with governance the form, timing, and expected general content of communications. Clear communication of the auditor's responsibilities (paragraphs .26 through .28), an overview of the planned scope and timing of the audit (paragraphs .29 through .33), and the expected general content of communications helps establish the basis for effective two-way communication.

.49 Matters that may also contribute to effective two-way communication include discussion of:

- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are in a better position to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form in which communications will be made.
- The person(s) on the audit team and among those charged with governance who will communicate regarding particular matters.
- The auditor's expectation that communication will be two way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures; the suspicion or the detection of fraud; or concerns about the integrity or competence of senior management.
- The process for taking action and reporting back on matters communicated by the auditor.
- The process for taking action and reporting back on matters communicated by those charged with governance.

.50 The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph .60).

Forms of Communication

.51 The auditor should communicate in writing with those charged with governance significant findings from the audit (see paragraphs .34 and .35) when, in the auditor's professional judgment, oral communication would not be adequate. This communication need not include matters that arose during the course of the audit that were communicated with those charged with governance and satisfactorily resolved. Other communications may be oral or in writing.

.52 Effective communication may involve formal presentations and written reports as well as less formal communications, including discussions. Written communications may include an engagement letter that is provided to those charged with governance.

.53 In addition to the significance of a particular matter, the form of communication (for example, whether to communicate orally or in writing, the

extent of detail or summarization in the communication, and whether to communicate in a formal or informal manner) may be affected by such factors as:

- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity being audited.
- Legal or regulatory requirements that may require a written communication with those charged with governance.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.
- In the case of a special purpose financial statement audit, whether the auditor also audits the entity's general purpose financial statements.

.54 When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarize the matter in later communications so that all of those charged with governance have full and balanced information.

.55 When the auditor communicates matters in accordance with this section in writing, the auditor should indicate in the communication that it is intended solely for the information and use of those charged with governance and, if appropriate, management and is not intended to be and should not be used by anyone other than these specified parties.

Timing of Communications

.56 The auditor should communicate with those charged with governance on a sufficiently timely basis to enable those charged with governance to take appropriate action.

.57 The appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter, and the action expected to be taken by those charged with governance. The auditor may consider communicating:

- Planning matters early in the audit engagement and, for an initial engagement, as part of the terms of the engagement.
- Significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulties, or if the difficulties are likely to lead to a modified opinion.

.58 Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.

- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, timely communication of a material weakness to enable appropriate remedial action to be taken.
- Whether the auditor is auditing both general purpose and special purpose financial statements.

Adequacy of the Communication Process

.59 The auditor should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor should take appropriate action to address the effectiveness of the communication process. (See paragraph .62.)

.60 As discussed in paragraph .08, effective two-way communication assists both the auditor and those charged with governance. Further, section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment. Inadequate two-way communication may indicate an unsatisfactory control environment, which will influence the auditor's assessment of the risks of material misstatements.

.61 The auditor need not design specific procedures to support the evaluation required by paragraph .59. Rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters communicated by the auditor.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.
- The apparent ability of those charged with governance to fully comprehend matters communicated by the auditor, such as the extent to which those charged with governance probe issues and question recommendations made to them.
- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing, and expected general content of communications.
- Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.

.62 If, in the auditor's judgment, the two-way communication between the auditor and those charged with governance is not adequate, there is a risk the auditor may not have obtained all the audit evidence required to form an opinion on the financial statements. The auditor should consider the effect, if any, on the auditor's assessment of the risks of material misstatements.

.63 The auditor may discuss the situation with those charged with governance. If the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (for example, a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (for example, shareholders in a general meeting), or the responsible government agency for certain governmental entities.
- Withdrawing from the engagement.

Documentation

.64 When matters required to be communicated by this section have been communicated orally, the auditor should document them.⁸ When matters have been communicated in writing, the auditor should retain a copy of the communication. Documentation of oral communication may include a copy of minutes prepared by the entity if those minutes are an appropriate record of the communication.

Effective Date

.65 This section is effective for audits of financial statements for periods beginning on or after December 15, 2006.

⁸ Section 339, *Audit Documentation*, requires the auditor to document discussions of significant findings or issues with management and others (including those charged with governance) on a timely basis, including responses. That section also requires that the audit documentation include documentation of the significant findings or issues discussed, and when and with whom the discussions took place.

.66

Appendix A

Requirements to Communicate With Those Charged With Governance in Other Statements on Auditing Standards

A1. Requirements for the auditor to communicate with those charged with governance are included in other Statements on Auditing Standards. This section does not change the requirements in:

- a. Paragraph .17 of section 317, *Illegal Acts by Clients*, to communicate with the audit committee or others with equivalent authority and responsibility illegal acts that come to the auditor's attention.
- b. Paragraphs .36–.37 of section 801, *Compliance Audits*, for the auditor to communicate (i) in writing to management and those charged with governance identified significant deficiencies and material weakness in internal control over compliance, even in the absence of a governmental audit requirement to report on internal control over compliance; and (ii) to those charged with governance of the entity, the auditor's responsibilities under GAAS, *Government Auditing Standards*, and the governmental audit requirement, an overview of the planned scope and timing of the compliance audit, and significant findings from the compliance audit.
- c. Paragraph .22 of section 316, *Consideration of Fraud in a Financial Statement Audit*, to inquire directly of the audit committee (or at least its chair) regarding the audit committee's views about the risks of fraud and whether the audit committee has knowledge of any fraud or suspected fraud affecting the entity.
- d. Paragraph .79 of section 316, *Consideration of Fraud in a Financial Statement Audit*, to communicate with those charged with governance fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements. In addition, the auditor should reach an understanding with those charged with governance regarding the nature and extent of communications with those charged with governance about misappropriations perpetrated by lower-level employees.
- e. Paragraph .20 of section 325, *Communicating Internal Control Related Matters Identified in an Audit*, to communicate in writing to management and those charged with governance control deficiencies identified during an audit that upon evaluation are considered significant deficiencies or material weaknesses.

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SAS No. 117.]

Appendix B

Qualitative Aspects of Accounting Practices

The communication in accordance with paragraph .34a of this section, and discussed in paragraphs .37 and .38, may include such matters as the following:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

- For items for which estimates are significant, issues discussed in section 342, *Auditing Accounting Estimates*, and section 328, *Auditing Fair Value Measurements and Disclosures*, including, for example:
 - Management's identification of accounting estimates.
 - Management's process for making accounting estimates.
 - Risks of material misstatement.
 - Indicators of possible management bias.
 - Disclosure of estimation uncertainty in the financial statements.

Financial Statement Disclosures

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.

Related Matters

- The potential effect on the financial statements of significant risks and exposures, and uncertainties, such as pending litigation, that are disclosed in the financial statements.

- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
 - The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.
 - The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.
-

AU Section 325

Communicating Internal Control Related Matters Identified in an Audit

(Supersedes SAS No. 112.)

Source: SAS No. 115.

Effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

Applicability

.01 This section establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. It is applicable whenever an auditor expresses or disclaims an opinion on financial statements. In particular, this section

- defines the terms *deficiency in internal control*, *significant deficiency*, and *material weakness*.
- provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements.
- requires the auditor to communicate, in writing, to management and those charged with governance,¹ significant deficiencies and material weaknesses identified in an audit.

.02 This section is not applicable if the auditor is engaged to examine the design and operating effectiveness of an entity's internal control over financial reporting that is integrated with an audit of the entity's financial statements under AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*.

Introduction

.03 Internal control is a process—effected by those charged with governance, management, and other personnel—designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those

¹ The term *those charged with governance* is defined in paragraph .03 of section 380, *The Auditor's Communication With Those Charged With Governance*, as "the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases management has this responsibility). For entities with a board of directors, this term encompasses the term *board of directors* or *audit committee* used elsewhere in generally accepted auditing standards."

that pertain to the entity's objective of reliable financial reporting. In this section, the term *financial reporting* relates to the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles (GAAP).² The design and formality of an entity's internal control will vary depending on the entity's size, the industry in which it operates, its culture, and management's philosophy.

.04 In an audit of financial statements, the auditor is not required to perform procedures to identify deficiencies in internal control^{3,4} or to express an opinion on the effectiveness of the entity's internal control. However, during the course of an audit, the auditor may become aware of deficiencies in internal control while obtaining an understanding of the entity and its environment, including its internal control, assessing the risks of material misstatement of the financial statements due to error or fraud, performing further audit procedures to respond to assessed risks, communicating with management or others (for example, internal auditors or governmental authorities), or otherwise. The auditor's awareness of deficiencies in internal control varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Definitions

.05 A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A deficiency in *design* exists when

- a control necessary to meet the control objective is missing; or
- an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

A deficiency in *operation* exists when

- a properly designed control does not operate as designed; or
- the person performing the control does not possess the necessary authority or competence to perform the control effectively.

.06 A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility⁵ that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

.07 A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

² Reference to generally accepted accounting principles includes, where applicable, a comprehensive basis of accounting other than generally accepted accounting principles, as that term is defined in paragraph .04 of section 623, *Special Reports*, as amended.

³ Hereinafter in this section, the term *internal control* means internal control over financial reporting.

⁴ Section 314, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, contains a detailed discussion of internal control and identifies the following five interrelated components of internal control: (a) the control environment, (b) the entity's risk assessment, (c) information and communication systems, (d) control activities, and (e) monitoring.

⁵ In this section, a reasonable possibility exists when the likelihood of the event is either *reasonably possible* or *probable* as those terms are defined in the Financial Accounting Standards Board *Accounting Standards Codification* glossary. [Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

Evaluating Deficiencies Identified as Part of the Audit

.08 The auditor should evaluate the severity of each deficiency in internal control⁶ identified during the audit to determine whether the deficiency, individually or in combination, is a significant deficiency or a material weakness. The severity of a deficiency depends on

- the magnitude of the potential misstatement resulting from the deficiency or deficiencies; and
- whether there is a reasonable possibility that the entity's controls will fail to prevent, or detect and correct a misstatement of an account balance or disclosure.

The severity of a deficiency does not depend on whether a misstatement actually occurred.

.09 Factors that affect the magnitude of a misstatement that might result from a deficiency or deficiencies include, but are not limited to, the following:

- The financial statement amounts or total of transactions exposed to the deficiency
- The volume of activity (in the current period or expected in future periods) in the account or class of transactions exposed to the deficiency

.10 In evaluating the magnitude of the potential misstatement, the maximum amount by which an account balance or total of transactions can be overstated generally is the recorded amount, whereas understatements could be larger.

.11 Risk factors affect whether there is a reasonable possibility that a deficiency, or a combination of deficiencies, will result in a misstatement of an account balance or disclosure. The factors include, but are not limited to, the following:

- The nature of the financial statement accounts, classes of transactions, disclosures, and assertions involved
- The susceptibility of the related asset or liability to loss or fraud
- The subjectivity, complexity, or extent of judgment required to determine the amount involved
- The interaction or relationship of the control with other controls
- The interaction among the deficiencies
- The possible future consequences of the deficiency

.12 The evaluation of whether a deficiency presents a reasonable possibility of misstatement may be made without quantifying the probability of occurrence as a specific percentage or range. Also, in many cases, the probability of a small misstatement will be greater than the probability of a large misstatement.

.13 Multiple deficiencies that affect the same significant account or disclosure, relevant assertion, or component of internal control increase the likelihood of material misstatement and may, in combination, constitute a significant deficiency or a material weakness, even though such deficiencies individually may

⁶ Hereinafter in this section, the term *deficiency in internal control* is referred to as a *deficiency* or *deficiencies*.

be less severe. Therefore, the auditor should determine whether deficiencies that affect the same significant account or disclosure, relevant assertion, or component of internal control collectively result in a significant deficiency or a material weakness.

.14 When performing substantive procedures or tests of the operating effectiveness of controls, the auditor may obtain evidence that a control does not operate effectively; for example, by identifying a misstatement that was not prevented, or detected and corrected by the control. Management may inform the auditor, or the auditor may otherwise become aware, of the existence of compensating controls that, if effective, may limit the severity of the deficiency and prevent it from being a significant deficiency or a material weakness. In these circumstances, although the auditor is not required to consider the effects of compensating controls for purposes of this section, the auditor may consider the effects of compensating controls related to a deficiency in operation provided the auditor has tested the compensating controls for operating effectiveness as part of the financial statement audit. Compensating controls can limit the severity of the deficiency, but do not eliminate the deficiency.

.15 Indicators of material weaknesses in internal control include

- identification of fraud, whether or not material, on the part of senior management;
- restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;
- identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
- ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

.16 If the auditor determines that a deficiency, or a combination of deficiencies, is not a material weakness, the auditor should consider whether prudent officials, having knowledge of the same facts and circumstances, would likely reach the same conclusion.

Communication—Form, Content, and Timing

.17 Deficiencies identified during the audit that upon evaluation are considered significant deficiencies or material weaknesses under this section should be communicated, in writing, to management and those charged with governance as a part of each audit, including significant deficiencies and material weaknesses that were communicated to management and those charged with governance in previous audits and have not yet been remediated. Significant deficiencies and material weaknesses that previously were communicated and have not yet been remediated may be communicated, in writing, by referring to the previously issued written communication and the date of that communication.

.18 The written communication referred to in paragraph .17 is best made by the report release date,⁷ which is the date the auditor grants the entity permission to use the auditor's report in connection with the financial statements, but should be made no later than 60 days following the report release date.

⁷ See paragraph .23 of section 339, *Audit Documentation*, for additional guidance related to the report release date.

.19 For some matters, early communication to management or those charged with governance may be important because of their relative significance and the urgency for corrective follow-up action. Accordingly, the auditor may decide to communicate certain matters during the audit. These matters need not be communicated in writing during the audit, but significant deficiencies and material weaknesses should ultimately be included in a written communication in accordance with paragraphs .17–.18, even if such significant deficiencies or material weaknesses were remediated during the audit.

.20 The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept the risk associated with the deficiencies because of cost or other considerations. Management is responsible for making decisions concerning costs to be incurred and related benefits. The auditor's responsibility to communicate significant deficiencies and material weaknesses exists regardless of management's decisions.

.21 Nothing precludes the auditor from communicating to management and those charged with governance other matters related to an entity's internal control. For example, the auditor may communicate

- matters the auditor believes to be of potential benefit to the entity, such as recommendations for operational or administrative efficiency, or for improving controls.
- deficiencies that are not significant deficiencies or material weaknesses.

If other matters are communicated orally, the auditor should document the communication.

.22 The written communication regarding significant deficiencies and material weaknesses identified during the audit of financial statements should

- include a statement that indicates the purpose of the auditor's consideration of internal control was to express an opinion on the financial statements, but not to express an opinion on the effectiveness of the entity's internal control.
- include a statement that indicates the auditor is not expressing an opinion on the effectiveness of internal control.
- include a statement that indicates that the auditor's consideration of internal control was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.
- include the definition of the term material weakness and, where relevant, the definition of the term significant deficiency.
- identify the matters that are considered to be significant deficiencies and those that are considered to be material weaknesses.
- include a statement that indicates the communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. If an entity is required to furnish such auditor communications to a governmental authority, specific reference to such governmental authorities may be made.

.23 The auditor may include additional statements in the communication regarding the general inherent limitations of internal control, including the

possibility of management override of controls, or the specific nature and extent of the auditor's consideration of internal control during the audit.

.24 Management or those charged with governance may ask the auditor to issue a communication indicating that no material weaknesses were identified during the audit of the financial statements to submit to governmental authorities. Exhibit A includes an illustrative communication when the auditor has not identified any material weaknesses and decides, or has been requested, to advise management and those charged with governance that no material weaknesses were identified.

.25 The auditor should not issue a written communication stating that no significant deficiencies were identified during the audit.

.26 Management may wish to, or may be required by a regulator to, prepare a written response to the auditor's communication regarding significant deficiencies or material weaknesses identified during the audit. Such management communications may include a description of corrective actions taken by the entity, the entity's plans to implement new controls, or a statement indicating that management believes the cost of correcting a significant deficiency or material weakness would exceed the benefits to be derived from doing so. If such a written response is included in a document containing the auditor's written communication to management and those charged with governance concerning identified significant deficiencies or material weaknesses, the auditor may add a paragraph to his or her written communication disclaiming an opinion on such information. Following is an example of such a paragraph:

ABC Company's written response to the significant deficiencies *[and material weaknesses]* identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Effective Date

.27 This section is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

.28

Exhibit A

Illustrative Written Communications

1. The following is an illustrative written communication encompassing the requirements in paragraph .22 of this section:

In planning and performing our audit of the financial statements of ABC Company (the "Company") as of and for the year ended December 31, 20XX, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses *[and other deficiencies that we consider to be significant deficiencies]*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *[We consider the following deficiencies in the Company's internal control to be material weaknesses:]*

[Describe the material weaknesses that were identified.]

[A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Company's internal control to be significant deficiencies:]

[Describe the significant deficiencies that were identified.]

This communication is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the organization, and *[identify any specified governmental authorities]* and is not intended to be and should not be used by anyone other than these specified parties.

2. The following is an illustrative written communication indicating that no material weaknesses were identified during the audit.

In planning and performing our audit of the financial statements of ABC Company (the "Company") as of and for the year ended December 31, 20XX, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the

purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the organization, and *[identify any specified governmental authorities]* and is not intended to be and should not be used by anyone other than these specified parties.

If one or more significant deficiencies have been identified, the auditor may add the following sentence to the third paragraph of the communication:

However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management and those charged with governance on *[date]*. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Exhibit B**Examples of Circumstances That May Be Deficiencies, Significant Deficiencies, or Material Weaknesses**

Paragraph .15 of this section identifies indicators of material weaknesses in internal control. The following are examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses:

Deficiencies in the Design of Controls

- Inadequate design of controls over the preparation of the financial statements being audited.
- Inadequate design of controls over a significant account or process.
- Inadequate documentation of the components of internal control.
- Insufficient control consciousness within the organization; for example, the tone at the top and the control environment.
- Absent or inadequate segregation of duties within a significant account or process.
- Absent or inadequate controls over the safeguarding of assets (this applies to controls that the auditor determines would be necessary for effective internal control over financial reporting).
- Inadequate design of IT general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs.
- Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles (GAAP), the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the entity's financial transactions or preparing its financial statements.
- Inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal control over time.
- The absence of an internal process to report deficiencies in internal control to management on a timely basis.

Failures in the Operation of Internal Control

- Failure in the operation of effectively designed controls over a significant account or process; for example, the failure of a control such as dual authorization for significant disbursements within the purchasing process.
- Failure of the information and communication component of internal control to provide complete and accurate output because of deficiencies in timeliness, completeness, or accuracy; for example, the failure to obtain timely and accurate consolidating information from remote locations that is needed to prepare the financial statements.
- Failure of controls designed to safeguard assets from loss, damage, or misappropriation. This circumstance may need careful consideration before it is evaluated as a significant deficiency or material weakness. For example, assume that a company uses security devices to safeguard

its inventory (preventive controls) and also performs periodic physical inventory counts (detective control) timely in relation to its financial reporting. Although the physical inventory count does not safeguard the inventory from theft or loss, it prevents a material misstatement of the financial statements if performed effectively and timely. Therefore, given that the definitions of material weakness and significant deficiency relate to likelihood of misstatement of the financial statements, the failure of a preventive control such as inventory tags will not result in a significant deficiency or material weakness if the detective control (physical inventory) prevents a misstatement of the financial statements. Material weaknesses relating to controls over the safeguarding of assets would only exist if the company does not have effective controls (considering both safeguarding and other controls) to prevent, or detect and correct a material misstatement of the financial statements.

- Failure to perform reconciliations of significant accounts. For example, accounts receivable subsidiary ledgers are not reconciled to the general ledger account in a timely or accurate manner.
- Undue bias or lack of objectivity by those responsible for accounting decisions; for example, consistent understatement of expenses or overstatement of allowances at the direction of management.
- Misrepresentation by entity personnel to the auditor (an indicator of fraud).
- Management override of controls.
- Failure of an application control caused by a deficiency in the design or operation of an IT general control.
- An observed deviation rate that exceeds the number of deviations expected by the auditor in a test of the operating effectiveness of a control. For example, if the auditor designs a test in which he or she selects a sample and expects no deviations, the finding of one deviation is a non-negligible deviation rate because, based on the results of the auditor's test of the sample, the desired level of confidence was not obtained.