



**FGFOA School of Government Finance  
Local Government Accountability  
November 4, 2015**



# Topics for Discussion

- New AG
- AG Rules Update
- Local Government Performance Audit
- Lessons from AG Audits of Local Governments

# New Auditor General Effective July 1, 2015



**Sherrill Norman**



# AG Rules Update



- ❑ 2014 reexamination of AG Rules, including consultation with AICPA.
  - Statutory provisions requiring auditors to determine compliance with specified law provisions:
    - Moved from reporting in management letter to examination report.
    - Results in increased level of assurance provided by auditor.
    - Significant changes affect audits of district school boards and local governments.
  
- ❑ 2015 Rules update includes two new provisions that affect county audits.



# AG Rules Update

- ❑ The scope of the financial audit shall include an examination pursuant to *AICPA Professional Standards*, AT Section 601, promulgated by the American Institute of Certified Public Accountants, to determine the following, as applicable:
  - (a) For all local governmental entities, 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.



# AG Rules Update

- ❑ The scope of the financial audit shall include an examination pursuant to *AICPA Professional Standards*, AT Section 601, promulgated by the American Institute of Certified Public Accountants, to determine the following, as applicable (continued):
  - (e) For local governmental entities 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). Additionally, the scope of the financial audit shall include additional activities necessary to prepare the report required in Rule 10.557(3)(f).



# GASB 68 – Accounting and Financial Reporting for Pensions

- GASB 68 requires participating employers to present certain pension amounts in their financial statements.
- Department of Management Services (DMS), Division of Retirement is preparing schedules to show each employer's allocation percentage (in proportion to all employers) and collective pension amounts:
  - Schedule of Employer Allocations
  - Schedule of Pension Amounts by Employer
- The Auditor General is engaged to audit and will issue an opinion on the schedules.



# GASB 68 – Accounting and Financial Reporting for Pensions

- We have issued our audit for the period ended 6/30/2014. Our report is available on the Auditor General Web site's "What's New" page [www.myflorida.com/audgen/pages/whatsnew.htm](http://www.myflorida.com/audgen/pages/whatsnew.htm)  
It is also report number 2016-021, accessible in the list of Auditor General released reports by fiscal year (2015-16 FY).
- The exact availability dates for the schedules for the period ended 6/30/2015 are currently unknown.
- DMS will notify participating employers when the audited schedules are available.



**Selected Findings from  
Local Government Financial  
Reporting System (LGFRS)  
Performance Audit  
Report No. 2015-037**

# LGFRS



LGFRS means any statutory provisions related to local government financial reporting, which should provide for the accumulation of financial and other information to be used by the Legislature and other officials to:

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

(Section 11.45(2)(g), FS)

# LGFRS



## Summary:

- Findings 1 through 5 relate to Community Redevelopment Agencies (CRAs) issues.\*
- Finding 6 relates to unrestricted fund balance in the General Fund.\*
- Finding 7 relates to budget transparency.\*
- Finding 8 relates to the Florida Department of Management Services' responsibilities involving local government pensions.
- Findings 9 through 11 relate to the auditor selection process.\*
- Finding 12 relates to tangible personal property.\*
- Findings 13 through 15 relate to local government bond issues.\*
- Finding 16 relates to Department of Economic Opportunity's authority for determining whether an entity is a special district.\*

\* Includes legislative recommendations

# LGFRS



## Finding 6: General Fund Unrestricted Fund Balance/Minimum Fund Balance Policy

- GFOA best practices suggest establishing a policy to maintain a General Fund unrestricted fund balance of no less than 2 months (17 percent) of regular operating revenues or expenditures.
- Our audit disclosed that a majority (73 percent) of the local governments surveyed had not adopted a minimum fund balance policy. We surveyed 35 local governments (5 counties, 15 municipalities, 15 special districts) and received 33 responses:
  - 24 (3 counties, 7 municipalities, 14 special districts) had no fund balance policy.
  - 2 municipality policies did not address a method for replenishing the fund balance should it fall below the target level in policy.



# LGFRS

## Finding 6: General Fund Unrestricted Fund Balance/Minimum Fund Balance Policy (cont.)

- Several of the local governments' financial statements we reviewed reported unrestricted fund balance of less than 17 percent of operating revenues and expenditures:
  - Of the 66 counties, 6 (9 percent)
  - Of 100 municipalities, 13 (13 percent)
  - Of 100 special districts, 26 (26 percent)
- **The Legislature should consider enacting a law requiring local governments to adopt a minimum General Fund unrestricted fund balance policy or requiring local governments to maintain a specified level.**

# LGFRS



## Finding 7: Transparency Requirements

- Section 11.45(7)(i), FS, requires the Auditor General to notify the Senate President, House Speaker, and Department of Financial Services of certain entities' failure to comply with transparency requirements.
- The only local governments included in the current requirement are water management districts.
- Our audit disclosed a high rate of noncompliance with budget transparency requirements by the 35 local governments tested.
- **The Legislature should consider requiring notifications for all local governments by amending Section 11.45(7)(i), FS.**



# LGFRS

## Finding 7: Transparency Requirements (cont.)

- Budget laws for local governments require posting tentative and final budgets, as well as certain budget amendments on the local governments' Web sites.
- The law does not address the length of time such budget-related documents must remain on local governments' Web sites, which may have contributed to instances of noncompliance by 26 (74 percent) of 35 local governments:
  - 3 posted no budgetary information.
  - 20 posted final but not tentative budget.
  - 1 posted tentative but not final budget.
  - 15 did not post required budget amendments.
- **Local governments should post required information on their Web sites. The Legislature should consider specifying the time periods for budget-related information to remain on local government Web sites (Sections 129.03(3)(c), 129.06(2)(f), 166.241(3) and (5), 189.016(4) and (7), and 373.536(5)(d) and (6)(d), FS).**



# LGFRS

## Finding 9: Audit Committee Composition

- Current law provides for audit committee composition for noncharter counties but not other local governments.
- GFOA recommends that audit committees include members of governing body and exclude members who exercise financial management responsibilities.
- Our audit disclosed:
  - Audit committees for 11 (37 percent) of 30 of the local governments we reviewed included at least one member with financial management responsibilities.
  - Audit committees for 4 (13 percent) did not include a member of the governing body.
- **The Legislature should consider revising Section 218.391(2), FS, to specify the composition of the audit committee for local governments other than noncharter counties. Local governments should ensure that audit committees are established as required by law.**



# LGFRS

## Finding 10: Audit Services Contracts

- Section 218.391(7), FS, requires audit contracts to include provisions specifying:
  - The fees to be paid;
  - That invoices be submitted in sufficient detail to demonstrate compliance with audit contracts;
  - The contract period, including renewals, and methods for terminating or renewing contract.
- 6 of 30 local government audit contracts we reviewed did not require detailed invoices to demonstrate compliance with the contracts.
- 4 of 30 contracts did not specify a finite contract period.
- 4 of 30 contracts did not specify methods for terminating or renewing the contracts.

# LGFRS



## Finding 10: Audit Services Contracts (cont.)

- Invoices for 15 of 30 contracts were not sufficient to demonstrate compliance with contract.
- Invoices for 2 of 30 contracts did not include documentation supporting actual amounts incurred for reimbursable costs.
- **Local governments should ensure that audit contracts include all provisions required by law and that invoices comply with terms of the contract prior to payment.**

# LGFRS



## Finding 11: Auditor Section Procedures

- Auditor selection procedures are prescribed in Section 218.391, FS.
- 9 (30 percent) of 30 local governments we reviewed did not follow auditor selection procedures provided in law:
  - 4 (13 percent) did not specify a contract period.
  - 5 (17 percent) improperly extended a contract that did not contain renewal provisions.
- **The Legislature should consider amending Section 218.391, FS, to require local governments to perform auditor selection procedures at specified intervals and establish provisions in law to encourage local governments to comply with the auditor selection procedures in Section 218.391, FS.**

# LGFRS



## Finding 12: Tangible Personal Property

- Chapter 274, FS, governs local government-owned tangible personal property and directs the State's Chief Financial Officer to promulgate rules establishing requirements for the recording of property and for the periodic review of property for inventory purposes.
- Law and rules are applicable only to counties, sheriffs of counties, and special districts with taxing authority.



# LGFRS

## Finding 12: Tangible Personal Property

- Entities subject to law and Chief Financial Officer Rules must:
  - Record property with a value or cost of \$1,000 or more and a useful life of one year or more.
  - Permanently mark property with ID#.
  - Record certain descriptive data in property records.
  - Record property disposals in property records and disposition of property must be approved by governing body.
  - Conduct complete physical inventory annually and for changes in custodians or custodian delegates.

# LGFRS



## Finding 12: Tangible Personal Property

- Our audit disclosed many instances in which municipalities or non-taxing special districts did not have adequate procedures over tangible personal property. For example:
  - 10 of 30 entities did not have written policies and procedures.
  - 15 of 30 entities did not perform a complete physical inventory during the 2012-13 FY, including 1 that had not performed an inventory since 2005.
  - 41 of 464 property items were not sufficiently described in property records to permit positive identification.
- **Local governments should establish written policies and procedures providing for proper accountability over property. The Legislature should consider revising the definition of “government unit” in Section 274.01, FS, to include all local governmental entities.**

# LGFRS



## Finding 16: Determination of Special Districts

- Special districts must comply with Chapter 189, FS, creation, dissolution, and reporting requirements.
- Department of Economic Opportunity (DEO) determines special district status but cannot determine whether an entity is a special district.
- Some entities appear to be special districts but have not filed as such with DEO.
- **The Legislature should consider amending Chapter 189, FS, to provide DEO the authority to determine whether an entity is a special district.**



# Auditor General

## Audits of

# Local Governments

# Operational Audit



- Section 11.45(1)(g), Florida Statutes, defines an operational audit as 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.

# Operational Audit



- Why pay attention to AG audits of local governments?
  - Different scope than financial audits:
    - Compliance requirements applicable to operations of the entity that may not be covered in a financial audit.
    - Controls that apply to those operations.
    - Economic/efficiency ideas.
    - Good business practices.
  - Improve financial management of the entity.



# What can be learned from recent local government operational audits?

Reports available on AG Web site: [www.myflorida.com/audgen](http://www.myflorida.com/audgen)

Under Auditor General Released Reports, By Entity Type,  
Local Government/Nonprofit



# **Small City, Florida**



# Audit Focus and Results

- Audit focused primarily on management's performance in establishing and maintaining internal controls and in administering assigned responsibilities in accordance with applicable laws, rules, and grant agreements.
- Audit results disclosed 10 areas that the City could improve its operations.

Note: All references to the City Clerk (Clerk) pertain to the former Clerk.

# Small City, FL



## General Management Controls & Oversight

- Several findings included in the City's most recent financial audit report had been reported for many years without correction.
- The City had not established written policies and procedures for its accounting and other business-related functions.
- The City had not provided for an adequate separation of duties as the Clerk was responsible for all phases of the City's financial transactions. No compensating controls had been established.

# Small City, FL



## Cash Controls

- Lax controls, inadequate accounting procedures and processes, and errors in recordkeeping contributed to apparent overpayments totaling \$8,258 to the former Clerk. We noted:
  - Incorrect check numbers recorded in the accounting records.
  - Checks recorded as voided but not physically in the voided check file, and checks in the voided check file not recorded as voided in the accounting records.

# Small City, FL



## Cash Controls

- Inappropriate replacement of stale-dated checks or failure to properly record replacement checks in the accounting records.
- Sixteen batches of customer payments dating back 5 years and totaling \$10,282 were not deposited in the bank account.
- Petty cash was comingled with receipts from water customer payments and was also used for drug stings conducted by Public Safety.

# Small City, FL



## Cash Controls

- Cash receipt forms used to account for collections were not properly accounted for.
  - More than one receipt book had been used simultaneously;
  - Some receipts had been removed;
  - Receipts were not used in consecutive order; and
  - Receipt numbers were not recorded in the accounting records.



# Small City, FL

## Cash in Bank

- Bank account reconciliations were not adequately prepared or not prepared at all.
- Bank agreements were outdated and not maintained in the City's records.
- The City failed to file an annual public deposit information report with the State's Chief Financial Officer, contrary to law.

# Small City, FL



## Water Services

- Water customer accounts were not adequately identified and monitored to ensure accounts were billed and payments timely made. At least \$11,354 of unbilled and uncollected water revenue was identified.
- The City's high rate of unaccounted for water (46 percent of all water pumped) was deemed unacceptable by the Water Management District (WMD). As a condition of the permit issued by WMD, the City must reduce water loss to 10 percent or less by June 2016.

# Small City, FL



## Personnel and Payroll

- Unsupported additional compensation totaling \$4,136 was paid to the Water Utility Operator and former Clerk.
- The City Council had not adopted a formal leave policy, although one employee received \$2,573 of payments in lieu of using vacation.
- The former Clerk's daughter and son were paid for services that were not reported to the Internal Revenue Service, contrary to law.

# Small City, FL



## Personnel and Payroll

- The City Council had not adopted policies and procedures addressing the employment of relatives.
- City Council reappointed a City Council member's wife (Clerk) as City Clerk while the council member was serving on the council, contrary to law.

# Small City, FL



## Procurement

- The City Council had not provided guidance, as to the assignment and proper use of City credit cards and charge accounts.
- Credit card billing statements were not always appropriately approved for payment, supporting receipts were not always retained in the City's records, and the City incurred late fees and finance charges due to failure to pay balances in full or untimely payments.

# Small City, FL



## Procurement

- Expenditures totaling \$27,517 were noted for which the City's records did not clearly demonstrate that a public purpose was served.

# Small City, FL



## Grant Administration

- Grant expenditure reimbursements, totaling \$34,753, were claimed from the grantor (Florida Department of Environmental Protection) prior to expending the moneys, contrary to the grant agreement.

# Small City, FL



## Public Records

- The City's public records were not adequately maintained and safeguarded, contrary to law.
- City Council meetings were not properly noticed and meeting minutes were incomplete.
- An ordinance containing City charter amendments was not filed with the Florida Department of State, contrary to law.



# Questions?

# Florida Auditor General



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