AUDITOR GENERAL

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STATE OF FLORIDA
LOCAL GOVERNMENT FINANCIAL REPORTING SYSTEM

Performance Audit

STATE OF FLORIDA
LOCAL GOVERNMENT FINANCIAL REPORTING SYSTEM

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SUMMARY OF FINDINGS

Our performance audit of the State of Florida local government financial reporting system (System) disclosed the following:

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Finding No. 2: Two CRAs could not demonstrate that redevelopment trust fund expenditures were in compliance with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes, or that all expenditures were properly authorized.

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Finding No. 9: DFS should continue its efforts to enhance the local government database and electronic filing system to increase local government participation.

Finding No. 10: Procedures for monitoring the timely submission and completeness of the AFRs from unaudited local governments could be improved. Although procedures were established to identify local governments that did not meet the audit requirement in the prior year and provide them with the necessary reporting package and instructions, procedures were not established to identify and notify local governments that did not file the AFR by April 30 as required by law.

Finding No. 11: Our examination of the records of local governments that did not file required balance sheet information with DFS disclosed significant misstatements in the amounts reported. As a result of these significant misstatements, we did not have sufficient, reliable data upon which to identify significant financial trends for many of these local governments.

Finding No. 12: The Division of Bond Finance report on special districts that are not in compliance with the requirements of Section 218.38, Florida Statutes, could be improved to better meet the needs of the Department of Community Affairs.

Finding No. 13: The Division of Retirement had not adopted written procedures covering its review of actuarial reports and impact statements. The Division's status report of reviews of actuarial reports and impact statements received did not accurately indicate the number of plans received and subject to be reviewed.

Finding No. 14: The Division of Retirement had not established procedures to implement notifications to pension plan administrators of incomplete filings of pension plan information and withholding of certain funds for failure to provide the needed information.

This audit was conducted in accordance with applicable standards contained in *Government Auditing Standards* issues by the Comptroller General of the United States. This audit was conducted by Daniel P. Owens, CPA. Please address inquiries regarding this report to Jim Dwyer, CPA, Audit Manager, via e-mail at jimdwyer@aud.state.fl.us or by telephone at (850) 487-9031.

This report, and other reports prepared by the Auditor General, can be obtained on our Web site at www.state.fl.us/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FINDINGS AND RECOMMENDATIONS

Community Redevelopment Agencies

Chapter 163, Part III, Florida Statutes, also known as the "Community Redevelopment Act of 1969" (Act) authorizes the creation of redevelopment agencies for the purposes of redevelopment of slums and blighted areas that are injurious to the public health, safety, morals, and welfare of residents and for which there is a shortage of housing affordable to residents of low or moderate income, including the elderly. This Part provides requirements that address the manner in which such an agency may be established, the powers of the agency, the funding of the agency, expenditure restrictions and reporting and audit requirements.

Community redevelopment agencies (CRAs) are funded through tax increment financing whereby the CRA is to receive annually 95 percent of the difference between the amount of ad valorem taxes levied by each taxing authority (exclusive of amounts derived from debt service millages) on taxable properties within the designated community redevelopment area, and the amount of taxes that would have been produced by the millage rates levied by the taxing authorities prior to the effective date of the ordinance providing for the funding.

Our objectives included determining whether CRAs complied with various requirements of Chapter 163, Part III, Florida Statutes.

Finding No. 1: Tax Increment Funding

Section 163.387(1), Florida Statutes, provides for the establishment of a redevelopment trust fund for each CRA after approval of a community redevelopment plan (Plan) and for the funding of the trust fund through tax increment revenues from each taxing authority. Funds allocated to and deposited into this fund are required to be used by the CRA to finance or refinance any community redevelopment it undertakes pursuant to the approved Plan. In addition, the law provides that no CRA may receive or spend any tax increment revenues unless and until the governing body has, by ordinance, provided for the funding of the redevelopment trust fund for the duration of the Plan. Our review indicated that the agencies included in our sample generally provided for a Plan and the establishment of a redevelopment trust fund pursuant to the law.

Section 163.387(2)(b), Florida Statutes, provides that the taxing authorities must provide the annual tax increment funding by January 1, and amounts not paid by that date, must include an additional 5 percent on the amount of the increment and 1 percent interest for each month the increment is not paid.

Our review of a sample of 20 CRAs indicated that tax increment revenue paid by taxing authorities for the 2002 and 2003 tax years were generally calculated in accordance with Section 163.387(1), Florida Statutes; however, payments to 11 CRAs for the 2002 tax year and 9 CRAs for the 2003 tax year were not made timely by taxing authorities. In addition, as of the date of our review, none of these CRAs assessed the additional 5 percent and interest required by law.

2002 Tax Year

CRA: Tax Authority	Annual Contribution	Date Paid	Additional 5 Percent	Interest	Amount Due
Auburndale CRA:					
Polk County	$231,553	01/21/03	$11,578	$1,494	$13,072
City of Auburndale	$135,330	01/31/03	$6,767	$1,310	$8,077
Bartow CRA:					
Polk County	$334,996	01/21/03	$16,750	$2,161	$18,911
City of Bartow	$151,890	01/09/03	$7,595	$392	$7,987
Bradenton CRA:					
City of Bradenton	$653,474	01/09/03	$32,674	$1,686	$34,360
City of Port St. Lucie CRA:					
St. Lucie County Fire District	$105,394	01/17/03	$5,270	$544	$5,814
City of Tampa CRA:					
City of Tampa	$4,771,984	01/07/03	$238,599	$9,236	$247,835
City of Winter Haven CRA:					
Polk County	$342,543	01/23/03	$17,127	$2,431	$19,558
City of Winter Haven	$299,232	01/20/03	$14,962	$1,834	$16,796
CRA of Stuart:					
Martin County	$186,124	02/03/03	$9,306	$1,994	$11,300
Hallandale Beach CRA:					
Children's Services Council of Broward County	$49,938	03/03/03	$2,497	$1,031	$3,528
Jacksonville Beach CRA:					
City of Jacksonville Beach	$1,036,978	01/31/03	$51,849	$10,035	$61,884
West Palm Beach CRA:					
West Palm Beach Downtown Development Authority	$486,313	01/13/03	$24,316	$1,883	$26,199
Winter Garden CRA:					
City of Winter Garden	$174,052	01/31/03	$8.703	$1,684	$10,387
Totals	**$8,959,801**		**$447,993**	**$37,558**	**$485,551**

2003 Tax Year

CRA: Tax Authority	Annual Contribution	Date Paid	Additional 5 Percent	Interest	Amount Due
Auburndale CRA:					
City of Auburndale	$155,174	01/31/04	$7,759	$1,502	$9,261
Bartow CRA:					
City of Bartow	$168,200	01/22/04	$8,410	$1,139	$9,549
Bradenton CRA:					
City of Bradenton	$685,624	01/15/04	$34,281	$3,096	$37,377
City of Port St. Lucie CRA:					
City of Port St. Lucie	$316,301	04/22/04	$15,815	$11,703	$27,518
City of Tampa CRA:					
Tampa Port Authority	$231,695	01/16/04	$11,585	$1,121	$12,706
CRA of Stuart:					
Martin County	$186,124	02/18/04	$9,306	$2,991	$12,297
City of Stuart	$144,566	01/29/04	$7,228	$1,306	$8,534
Daytona Beach CRA:					
Volusia County	$2,090,498	01/08/04	$104,525	$4,720	$109,245
Jacksonville Beach CRA:					
City of Jacksonville Beach	$1,180,125	01/30/04	$59,006	$11,040	$70,046
West Palm Beach CRA:					
West Palm Beach Downtown Development Authority	$588,526	01/15/04	$29,426	$2,658	$32,084
Total	**$5,746,833**		**$287,341**	**$41,276**	**$328,617**

Note: The additional 5 percent and interest were calculated for both years based on the amounts paid by the taxing authority.

Recommendation: Local government taxing authorities should ensure that tax increment revenues are timely paid to CRAs in accordance with Section 163.387, Florida Statutes. In addition, for any tax increment revenues not timely paid, CRAs should assess and collect any additional moneys and interest imposed by law, including the amounts noted above.

Auditor General Clarification

In his response, the City of Tampa CRA Chief Accountant indicated that the City and the CRA share a common accounting system, bank account, and pooled cash system and that the funds are immediately available to the CRA when received by the City. Therefore, the CRA does not believe the City's tax increment payment was late. However, the CRA Chief Accountant did not provide documentation to support his contention that no interest or the additional five percent is owed for payments that are late.

In its response, the City of Winter Haven CRA indicated that it did not seek the additional five percent and interest from the County or the City because staff did not believe the actions were intentional and it did not cause interruption of programs/operations of the CRA. However, we are unaware of any authority within Section 163.387, Florida Statutes, for the CRA not to collect the additional money and interest.

In his response, the Jacksonville Beach CRA Administrator acknowledged that the City did not transfer the tax increment funding to the CRA as required on January 1st but stated that "the monetary effect of the transaction was none because all interest earned on funds is computed based on the last day of the month; therefore no interest was lost, and there was no financial impact whatsoever." However, the CRA Administrator did not provide documentation to support his contention that no interest or the additional five percent is owed for payments that are less than one month late.

Finding No. 2: General Disbursements

Section 163.387(6), Florida Statutes, states that moneys in the redevelopment trust fund may be expended for undertakings of a community redevelopment agency which are directly related to financing or refinancing of redevelopment in a community redevelopment area pursuant to an approved Plan. Section 163.370(2), Florida Statutes, provides that increment revenues may not be used to pay for or finance expenditures related to certain specified projects or for general government operating expenditures unrelated to the planning and carrying out of a Plan.

Our review indicated the following instances where it was not apparent that redevelopment trust fund expenditures were for the benefit of the CRA and complied with the Plan and Sections 163.387(6) and 163.370(2), Florida Statutes:

- For the Bartow CRA, we noted payments totaling $3,465 relating to attendance at the Florida Redevelopment Conference for which detailed invoices could not be provided. We also noted a payment of $3,000 for the rental of 500 chairs for a City event entitled, "Juneteenth Celebration," that did not appear to relate to the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes.
- For the Orlando CRA, we noted that:
  - CRA approval was not documented for 2 of 20 expenditures reviewed, totaling $696,746, consisting of one payment of $549,630 for the West Church Street Garage construction project, and one payment of $147,116 for the Orlando Expo Center improvement project. Although the projects were approved by the CRA Board, the payments relating to those projects were not approved by the CRA;
  - An invoice was not provided for one payment of $82,157 to the City for trash removal; and,
  - The Orlando Downtown Development Board was overpaid by an estimated $300,000 for the 2002-03 and 2003-04 fiscal years, based on the terms of a cost-sharing agreement between the two entities.

Recommendation: To ensure that redevelopment trust fund expenditures are in compliance with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes, all expenditures should be properly authorized and adequately documented. In addition, the Orlando CRA should request reimbursement from the Orlando Downtown Development Board for the overpayment noted.

Auditor General Clarification

The Executive Director of the Bartow CRA provided with his response invoices for $1,590 of the $3,465 of unsupported payments noted in our finding.

Finding No. 3: Salary and Benefit Disbursements

For 13 of the 20 CRAs included in our review, we noted that salary payments were made from tax increment revenues. Our review indicated that employees whose salaries were paid entirely from CRA funds generally performed duties 100 percent related to CRA activities. However, we noted that for 5 of the 13 CRAs (38 percent), documentation such as employee timesheets, position descriptions or other cost accumulation records, was not adequate to demonstrate that employees whose salaries and benefits were partially paid from CRA funds were paid commensurate with the percentage of time they spent on CRA-related activities (i.e., activities related to CRA-approved projects as specified in the CRA Plan). Absent such documentation, it was not apparent, of record, as to whether redevelopment trust fund expenditures properly benefited the CRA. The 5 CRAs and the amounts paid for salaries and benefits unsupported by time records were as follows:

CRA	2002-03 FY Amount	2003-04 FY Amount
City of Winter Haven CRA	$83,325	$63,814
Daytona Beach CRA	$294,896	$736,572
Jacksonville Beach CRA	$101,131	$92,457
Northeast CRA	$54,947	$40,349
Winter Garden CRA	$80,549	$45,537

Recommendation: Actual time spent by employees on CRA activities should be supported by documentation, such as timesheets, and salaries and benefits paid from CRA funds should be commensurate with this documentation.

Auditor General Clarification

In their response regarding the City of Winter Haven CRA, the Finance and Support Services Director and the Community and Economic Development Director stated, "If a final determination is made by the Auditor General's Office on this matter, the City/CRA will implement such controls." With the issuance of this report, we have made a final determination that the City/CRA should implement controls to document the time City employees spend on CRA activities to provide a basis for salary expenditures charged to the CRA.

Finding No. 4: Contributions to Nongovernmental Entities

Article VII, Section 10, of the State Constitution, prohibits municipalities from giving, lending, or using their taxing power or credit to aid a corporation, association, partnership or person. According to Attorney General Opinion No. 96-90, the purpose of this provision is "to protect public funds and resources from being exploited in assisting private ventures when the public would be at most incidentally benefited." According to Attorney General Opinion No. 79-56, the Supreme Court has held that a governmental entity may use a nonprofit corporation as a medium to accomplish a public purpose provided that certain conditions are met. First, there must be a clearly identified and concrete public purpose as the primary objective and a reasonable expectation

that such purpose will be substantially and effectively accomplished. Also, the governmental entity must retain sufficient control over the use of the public funds by the nonprofit corporation to assure accomplishment of the public purpose.

Our review indicated that two CRAs made contributions during the period of October 1, 2002, through September 30, 2004, to private nonprofit corporations without clearly identifying the public purpose as the primary objective, or exercising the necessary control, to ensure that contributions benefited the community redevelopment area. The Winter Haven CRA made contributions totaling $67,000 to Main Street Winter Haven, Inc. (Main Street), a private, nonprofit corporation during the 2002-03 and 2003-04 fiscal years. According to the Community and Economic Development Director, the public purpose for partnering with Main Street was to undertake projects and programs tied to the redevelopment or revitalization of the downtown district. Our review indicated that no formal agreement existed between the entities. In addition, adequate procedures were not performed by the Winter Haven CRA to determine the ultimate use of these funds. The Auburndale CRA made contributions totaling $38,000 to the Auburndale Chamber of Commerce (Chamber), a private nonprofit corporation, during the 2003-04 fiscal year. Our review indicated that, during the period, no formal agreement existed between the entities for the expenditure of the contributed funds. In addition, adequate procedures were not performed by the Auburndale CRA to determine the ultimate use of these funds.

Without an agreement specifying the authorized use of contributed funds and monitoring of the ultimate use of such funds, CRAs can not be assured that the funds contributed were expended for a clear public purpose that benefited the CRA.

Recommendation: Contributions of CRA funds to private, nonprofit organizations should be made in accordance with a formal agreement that clearly identifies and demonstrates a clear public purpose which benefits the CRA. Additionally, CRAs should exercise sufficient control over the disbursement of funds through timely review of the uses of those funds.

Finding No. 5: Budget Adoption

Section 189.418(3), Florida Statutes, requires the governing body of each special district to adopt a budget by resolution each fiscal year. We noted that 4 of the 20 (20 percent) CRAs reviewed did not adopt budgets by resolution, contrary to Section 189.418(3), Florida Statutes, as follows:

CRA	Fiscal Year(s)
Bartow CRA	2002-03 and 2003-04
Bradenton CRA	2002-03
City of Tampa CRA	2002-03 and 2003-04
Fort Myers CRA/Downtown Development Authority	2002-03

Recommendation: To comply with Section 189.418(3), Florida Statutes, CRAs should adopt a budget by resolution.

Auditor General Clarification

In his response, the City of Tampa CRA Chief Accountant indicated that the CRA approved budgets for the Ybor City CRA for the 2003 and 2004 fiscal years, but did not provide documentation to support this statement. He also indicated that since the City Council is the oversight board for the CRA, and since the City Council adopted budgets related to CRA activity, the CRA believes the City Council's adoption of said budgets were appropriate authorization of CRA activity. The City and the CRA are two legally separate entities and, though their governing boards may be comprised of the same individuals, these individuals, in their capacity as the CRA Board, are required by Section 189.418(3), Florida Statutes, to adopt a budget by resolution for each fiscal year.

Finding No. 6: Budget Overexpenditures

Section 189.418(3), Florida Statutes, requires that the budget be adopted by the CRA each fiscal year; that the total amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal total appropriations for expenditures and reserves; and that it is unlawful for the CRA to expend or contract for expenditures except in pursuance of budgeted appropriations.

We noted budget overexpenditures for 3 of 20 (15 percent) CRAs reviewed, contrary to law, as follows:

- The Gulf Breeze CRA exceeded its 2003-04 fiscal year budget by $93,339, or 9.4 percent of budgeted expenditures.
- The City of Winter Haven CRA exceeded its 2002-03 fiscal year budget by $30,942, or 5.3 percent of budgeted expenditures.
- The City of Tampa's CRA budget was included within the City of Tampa's general budget for the 2002-03 and 2003-04 fiscal years. The CRA is comprised of blighted areas in the downtown vicinity and Ybor City. Only the expenditures applicable to Ybor City were budgeted. Additionally, the budget did not include debt service expenditures, which exceeded $9 million in each fiscal year.

Recommendation: To comply with Section 189.418(3), Florida Statutes, CRAs should ensure that budgets are adopted for all expenditures and that actual expenditures do not exceed budgeted expenditures for any given fiscal year.

Auditor General Clarification

In his response, the City of Tampa CRA Chief Accountant indicated that the CRA "authorized the City to use funds from the Downtown Core and Non-Core CRA districts toward debt service payments," but acknowledged that debt service expenditures were not budgeted. As noted in our finding, Section 189.418(3), Florida Statutes, states that it is unlawful for the CRA to expend or contract for expenditures except in pursuance of budgeted appropriations. Therefore, the CRA's "authorization" should be documented via the adopted budget.

Finding No. 7: Audit Compliance

Section 163.387(8), Florida Statutes, requires each CRA to provide for an independent financial audit of its redevelopment trust fund each fiscal year and a report of such audit. The law requires that the audit report

describe the amount and sources of deposits into, and the amount and purpose of withdrawals from, the redevelopment trust fund during the fiscal year. Also, the law requires that the audit report describe the amount of principal and interest paid during the year on any indebtedness to which is pledged increment revenues and the remaining amount of such indebtedness. The CRA must provide a copy of the audit report to each taxing authority.

We contacted 148 active CRAs, as of September 30, 2003, to determine whether an independent audit of its redevelopment trust fund was provided for the 2002-03 fiscal year pursuant to Section 163.387(8), Florida Statutes. Of the 114 CRAs for which we obtained this information, 104 CRAs (91 percent) indicated that the audit requirement was met by the CRA being included as a component unit of the municipality or county primary government audit report, prepared pursuant to Section 218.39, Florida Statutes. Additionally, 9 CRAs were audited pursuant to Section 218.39, Florida Statutes, independent of the primary government, and 1 CRA was not audited at all.

We noted from discussions with CRA staff, that most CRAs believe that the audit requirements contained in Section 163.387(8), Florida Statutes, were met if the CRA was included within the local governing authority's financial audit. Although 91 percent of the CRAs that responded to our inquiry were included in the 2002-03 fiscal year audit report of the primary government, the audit reports for the primary governments included expressions of opinions on the financial statements of the primary governments, but did not include opinions specifically on the financial statements of the redevelopment trust funds. Furthermore, these audit reports generally did not include all of the specific information required by Section 163.387(8), Florida Statutes, such as the amount and sources of deposits into, and the amount and purpose of withdrawals from, the redevelopment trust fund during the fiscal year. Also, the amount of indebtedness to which increment revenues was pledged, including the payments thereon, was generally not included.

Recommendation: CRAs should provide for annual audits of the redevelopment trust fund in accordance with Section 163.387(8), Florida Statutes. When such audits are included in the primary government's audit, they should include all of the information required by the law and copies of the audit reports should be provided to each taxing authority.

Auditor General Clarification

In many of the responses received, the CRA indicated that the financial statements were audited as a part of, and included in, the primary government's report. Therefore, the CRA believed that the requirements of Section 163.387(8), Florida Statutes, were met. Since under Governmental Accounting Standards Board Statement No. 34 the auditor is required to express an opinion at the major fund level, the requirements of Section 163.387(8), Florida Statutes, would be met for these CRAs as long as the CRA redevelopment trust fund was included in the primary government's report as a major fund, or the independent auditor's report provided a separate opinion on the trust fund, and the rest of the required elements were included in the report. However, this was not done in most instances.

Finding No. 8: Report of Activities

Section 163.356(3)(c), Florida Statutes, requires each CRA to file with its governing body, on or before March 31 of each year, a report of its activities for the preceding fiscal year, which report shall include a complete financial

statement setting forth its assets, liabilities, income, and operating expenses as of the end of such fiscal year. In addition, the law requires that, at the time of filing the report, the CRA shall publish in a newspaper of general circulation in the community a notice to the effect that such a report has been filed with the county or municipality and that the report is available for inspection during business hours in the office of the clerk of the city or county commission and in the office of the CRA.

Our review disclosed that 11 and 12 of 20 CRAs did not prepare a report of activities for the 2002-03 and 2003-04 fiscal years, respectively, as follows:

CRA	Fiscal Year(s)
Auburndale CRA	2002-03 and 2003-04
Bartow CRA	2002-03 and 2003-04
Boca Raton CRA	2002-03 and 2003-04
City of Port St. Lucie CRA	2003-04
CRA of Stuart	2003-04
Daytona Beach CRA	2002-03 and 2003-04
Fort Myers CRA/Downtown Development Authority	2002-03 and 2003-04
Gulf Breeze CRA	2002-03 and 2003-04
International Drive CRA	2002-03 and 2003-04
Jacksonville Beach CRA	2002-03
Northeast CRA	2002-03 and 2003-04
Palatka Downtown Redevelopment Agency	2002-03 and 2003-04
Winter Garden CRA	2002-03 and 2003-04

Of the CRAs that did prepare a report of activities, all included information regarding the CRA's non-financial activities, such as progress on specific CRA projects and future activities planned. Five CRAs responded that the financial statement information was included in the audited financial statements of the local governing authority and, in their opinions, that satisfied the requirements of Section 163.356(3)(c), Florida Statutes. However, only two of the five CRAs complied with the requirement to publish the availability of the information in the newspaper.

As noted above, the CRAs had varied interpretations of the requirements of Section 163.356(3)(c), Florida Statutes. Since "activities" is not defined in the law, clarification may be necessary to ensure that the intent of the law is fulfilled.

Recommendation: CRAs should ensure that a report of activities is filed as required by Section 163.356(3)(c), Florida Statutes. In addition, CRAs should confer with their governing bodies regarding the nonfinancial information to be included in the report of activities. For example, the report could include progress on CRA projects and future activities planned.

Auditor General Clarification

In his response, the Bartow CRA Executive Director indicated that a copy of the CRA's 2002-03 fiscal year report of activities was provided to our auditor on-site and he indicated that copies of the 2002-03 and 2003-04 fiscal year reports were attached to his response. In his response, the Executive Director actually included the CRA's 2001-02 and 2002-03 fiscal year reports. Although the CRA's 2002-03 fiscal year report was included with his response, this report had not been previously provided to us. The 2002-03 fiscal year report provided was not dated and did not include the financial statement information required by Section 163.356(3)(c), Florida Statutes.

In her response regarding the City of Port St. Lucie CRA, the Port St. Lucie Assistant City Attorney indicated that the 2003-04 fiscal year report of activities for the CRA was provided for our review on June 30, 2005, transmitted to us through the City Manager, and included a copy of this report in her response. However, we show no record of receipt of this report in 2005. Additionally, the City Manager concurred with our findings when they were verbally discussed with him in April 2006, and this report was not furnished to us at that time. The Assistant City Attorney also indicated that copies of the required notices were included in her response. However, no such notices were included or received by us with her response. The report provided with her response was not dated. As a result, we could not determine the date on which the report was prepared or noticed.

In his response, the Finance Director indicated that the City of Daytona Beach, as the Daytona Beach CRA, prepared and advertised the report of activities in the newspaper. The documentation submitted to support his position did indicate advertisement that a report of activities had been prepared and was available for public inspection. However, the "report of activities" the CRA provided in response to this finding was a copy of the City of Daytona Beach's Comprehensive Annual Financial Report, which included the financial statements of the CRA, but no other information regarding the CRA's activities. While Section 163.356(3)(c), Florida Statutes, requires that the report of activities include the financial statements of the CRA, it does not appear that the Legislature intended for this report to be only the financial statements of the CRA.

In his response, the Chairman of the Winter Garden CRA indicated that the CRA's financial statement information was included in the audited financial statements of the City and, therefore, satisfied the requirements of Section 163.356(3)(c), Florida Statutes. As noted in finding No. 7, the audited financial statement requirement is contained in Section 163.387(8), Florida Statutes. Although, as the Chairman indicates in his response, "activities" is not defined in Section 163.356(3)(c), Florida Statutes, it would be duplicative if both requirements were identical and merely required financial statements.

Local Government Financial Reporting

Finding No. 9: Electronic Filing of Annual Financial Reports

Section 218.32(1), Florida Statutes, requires that local governments submit to the Department of Financial Services (DFS) an Annual Financial Report (AFR) covering their operations for the preceding fiscal year. DFS made available to local governments an electronic filing system that accumulates the financial information reported on the AFR in a database and makes the information available in an electronic format. DFS established links on its Web site to the database and electronic filing system and provided electronic filing instructions in the AFR package mailed to local governments.

In our report No. 2004-06, we recommended that DFS continue its efforts to enhance the local government database and electronic filing system so that they are more user-friendly and survey local governments to determine why they chose not to use the electronic filing system and what changes would be necessary for them to use the system. Our current review indicated that although DFS conducted a limited telephone survey of 31 local governments that filed their AFR manually for the 2000-2001 fiscal year, the survey represented only 3.4 percent of all local governments filing manually at that time and included only two counties. Of the 24 local governments that responded to the telephone survey, 19 (approximately 79 percent) responded favorably that they were interested and willing to learn more about the possibility of electronic filing; however, DFS did not, of record, follow through with these local governments or conduct additional surveys during our audit period.

DFS records indicated that the percentage of total local governments that submitted their AFR electronically has continued to increase each year for the past three fiscal years, from 15 percent for the 2000-01 fiscal year to 20 percent for the 2003-04 fiscal year, as of August 2005. Additionally, we were informed by DFS that it is in the preliminary stages of a feasibility analysis for converting the local government database to a new computer software system. Although DFS staff informed us that there were no current plans to do another survey specifically concerning electronic filing by local governments, we were informed that a survey of users would certainly be a part of any decision by DFS to upgrade or change its electronic filing system.

Recommendation: Given the increase in local governments filing electronically, DFS should continue its efforts to enhance the local government database and electronic filing system. Such efforts, at a minimum, should include a survey of all local governments that continue to file manually to determine what changes, if any, would be necessary for them to use the electronic filing system.

Finding No. 10: Reporting by Unaudited Local Governments

Section 218.32(1)(e), Florida Statutes, requires local governments not required to provide for an audit pursuant to Section 218.39, Florida Statutes, to submit an AFR to DFS no later than April 30 of each year. Local governments required to provide for an audit must submit an AFR no later than September 30. Pursuant to Section 218.32(1)(f), Florida Statutes, if DFS does not receive a completed AFR from the local government within the required period, DFS shall notify the Legislative Audit Committee (LAC) of the local government's failure to

comply with the reporting requirements. LAC shall proceed in accordance with Section 11.40(5), Florida Statutes, which provides for withholding State funds payable to such local government until it complies with the law.

Section 218.32(1)(e), Florida Statutes, requires that the AFR include balance sheet information (e.g., assets, liabilities, fund balances, and net assets) for use by us pursuant to Section 11.45(7)(f), Florida Statutes, in identifying and reporting significant financial trends. The format of the AFR for such local governments was developed by DFS, in consultation with us, and included sufficient information to allow us, or other interested parties (including local government management), to perform a preliminary financial condition assessment of the local government.

Using our local government audit report database and the information received from DFS, we identified 146 local governments (13 municipalities and 133 special districts) that were not required to provide for audits for the 2002-03 fiscal year and should have filed an AFR with DFS by April 30, 2004, pursuant to Section 218.32(1)(e), Florida Statutes. Our review indicated that 40 (27 percent) of these local governments (36 special districts and 4 municipalities) did not submit the required information to DFS. We contacted these local governments and were subsequently provided with the information from all of the special districts; however, we were not provided with the required information by any of the 4 municipalities.

Our review of DFS actions taken for the 2002-03 fiscal year disclosed that DFS established procedures to identify local governments that did not meet the audit threshold in the prior year and provided those local governments with the necessary reporting package (i.e., including balance sheet information) and instructions. However, DFS had not established procedures to timely verify whether such local governments filed the AFR by April 30, as required by law. Rather, the local governments that failed to file AFRs by April 30, 2004, were reported to the LAC with those that were required to, but did not, file AFRs by September 30, 2004. The report, dated January 21, 2005, made no distinction between local governments that should have filed by April 30, 2004, and September 30, 2004, respectively. The effectiveness of reporting those local governments that did not file AFRs by April 30 could be enhanced by reporting them in a more timely manner.

Recommendation: DFS should establish procedures to more timely identify local governments that are required to, but do not, file AFRs by April 30. Additionally, the required notification to the LAC should be made in a more timely manner.

Finding No. 11: Significant Financial Trends Reporting

Section 11.45(7)(f), Florida Statutes, requires the Auditor General to 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 local government audit reports. The summary must include financial information included in local government AFRs not required to provide for an audit pursuant to Section 218.32(1)(e), Florida Statutes, so that we may identify and report significant financial trends.

As required by law, DFS provided us with financial information obtained from local governments' AFRs for the 2002-03 fiscal year. For local governments not required to provide for an audit, information reported on the AFR must include balance sheet information. However, as noted in our report No. 2005-175, because many of the local governments did not furnish DFS with the required information, we were not provided with sufficient information to identify financial trends for these local governments.

We attempted to verify the accuracy and completeness of the information for local governments not required to provide for an audit supplied to us, either by DFS from AFR information or by the local governments through our inquiries, by examining the accounting ledgers and supporting documentation for each account for the 146 local governments that were not required to file an audit report (see finding No. 10). We were unable to verify the information for 7 local governments (3 municipalities and 4 special districts) that provided the needed information because of: the inadequacy of the accounting records (2 special districts and 1 municipality), the inability to contact the local governments (1 special district and 1 municipality), and the failure of the local governments to provide the supporting records upon our request (1 special district and 1 municipality). The results of our review of the remaining 139 local governments (10 municipalities and 129 special districts) are presented below.

Our review disclosed several instances where balances existed in various accounts for which the local governments indicated there were no balances. For example, we noted 6 of 58 special districts (approximately 10 percent) indicated zero balances in assets/investments and unreserved fund equity accounts, and 12 of 63 special districts (approximately 19 percent) indicated no balances in revenues and expenditures accounts, even though we identified balances in these various accounts when we examined the local governments' accounting records. Further, our review disclosed that several local governments significantly misstated account balances (i.e., 5 percent or more of the total account balance). The following table indicates the number of accounts that were significantly misstated by entity type:

Misstated Account	Special Districts	Municipalities	Total
Cash/Investments	18	1	19
Current Liabilities	6	0	6
Fund Equity	20	1	21
Revenues	23	1	24
Expenditures	20	1	21

The errors in reporting, in many instances, may be attributable to employees lacking the technical expertise or education and training necessary to accomplish the accounting and reporting responsibilities. By definition, the special districts included in our review had revenues and expenditures of less than $100,000 (the amount requiring

an audit). Our review disclosed average revenues and expenditures of $16,200 and $15,200, respectively, for these special districts and an average cash/investments balance of $19,700. As such, these local governments may not be able to acquire the needed expertise to properly complete the AFRs.

Recommendation: To ensure that AFRs filed for unaudited local governments are complete and reasonably accurate, DFS should consider providing technical assistance to smaller local governments to assist them on proper completion of the AFR. Such technical assistance could include educational training sessions and more detailed instructions in the AFR package mailed to these local governments by DFS. Further, DFS should review AFRs received for reasonableness and, if necessary, request additional information from the local governments.

Finding No. 12: Reporting of Noncompliant Special Districts

Section 218.37(1)(g), Florida Statutes, requires that the State Board of Administration, Division of Bond Finance (DBF), by January 1 each year, provide the Department of Community Affairs (DCA) with a list of special districts that are not in compliance with the requirements of Section 218.38, Florida Statutes. Section 218.38(1)(a), Florida Statutes, requires that local governments provide DBF advance notice of the impending sale of any new issue of bonds. Section 218.38(1)(c), Florida Statutes, also requires that local governments file certain information with DBF within 120 days after the delivery of the bonds.

We noted in our report No. 2004-006 that DBF timely provided DCA with the required lists of special districts not in compliance with Section 218.38, Florida Statutes; however, a significant number of noncompliant districts were erroneously omitted. Our current review disclosed that DBF timely provided the required lists of special districts to DCA, and errors were significantly reduced (only 3 exceptions noted for 198 bond issues). However, we were informed by DCA staff that the information on the lists of noncompliant special districts could be improved to better meet the needs of DCA, as follows:

DBF's current list of noncompliant special districts consists of a transmittal letter and three attachments. Comments from DCA relative to the attachments include:

- Attachment one is a printout of all special district bond issues reported to DBF, without regard to instances of noncompliance. The reporting of all special district bond issues is not required by law, and was not considered useful.
- Attachments two and three provide lists of special districts not complying with Sections 218.38(1)(a) and 218.38(1)(b)(1.) and (1)(c)(1.), Florida Statutes; however, the attachments list the special district for each instance of noncompliance with the law. As such, when a special district has multiple instances of noncompliance, the same special district appears multiple times on the same attachment, which is confusing. Additionally, the two attachments did not always include the correct name of the special district as listed in the DCA Official List of Special Districts and, in some instances, included districts that were not considered special districts pursuant to Section 189.403, Florida Statutes. Consideration should be given to providing two lists of special districts, one list for each type of noncompliance, and both lists should only include special districts as identified in the DCA Official List of Special Districts.

Recommendation: To improve the usefulness of the lists of noncompliant special districts provided to DCA pursuant to law, DBF should consider the information needs of DCA and modify the reported information, as appropriate. DBF should also ensure that all entities reported to DCA are, in fact, special districts as identified in the DCA Official List of Special Districts.

Auditor General Clarification

In his response regarding reporting an incorrect name for special districts, the Director of the Division of Bond Finance indicated that the Division relies on the information as reported by those involved in the bond financings and that it is outside the scope of the Division's authority to require a local entity to change its practices in this regard. Regarding the reporting of entities to DCA that are not special districts, the Director indicated that the determination as to whether an entity is a special district is a legal conclusion based on its powers and method of creation , and that the Division is not in a position to know the details of a particular entity which presents itself to the Division as a special district. For both of these issues, the Director indicated that they are matters that should be between DCA and the entity. However, it is the Division's responsibility to report to DCA noncompliant special districts as defined in Section 189.403, Florida Statutes. The Division is not responsible for determining which entities are special districts as this is DCA's responsibility. However, the Division is responsible for maintaining bond information for local governmental entities. To determine whether an entity is a valid local government that should be reporting to the Division, it would seem incumbent upon the Division to validate the fact that the entity is truly recognized as a local government by the State. Given that DCA publishes the Official List of Special Districts on its Web site, it is not apparent why the Division cannot ensure that (1) only those special districts contained on DCA's List are included, and (2) the correct name is reported to DCA. For entities for which bond information is received and the entity is not listed by DCA, the Division should consult with DCA.

Finding No. 13: Review of Actuarial Reports and Impact Statements

Pursuant to Chapter 112, Part VII, Florida Statutes, the Department of Management Services, (DMS) receives copies of local government retirement system or plan (pension plan) actuarial reports and statements of actuarial impact (impact statements). Pursuant to Section 112.63(4), Florida Statutes, DMS is responsible for reviewing and commenting on the actuarial soundness of local government pension plans, specifically the actuarial valuations and impact statements, at least on a triennial basis. Section 112.665, Florida Statutes, requires DMS to gather, catalog and maintain complete computerized data information on all public employee retirement systems or plans in the State.

In our report No. 2004-006, we noted that DMS did not perform timely reviews of actuarial reports and impact statements submitted for local government pension plans, and did not timely follow up on responses received from local governments. We also noted that DMS hired an actuarial consulting firm to assist them in reviewing the actuarial reports and impact statements; however, as of September 30, 2002, DMS records indicated a total of 1,160 actuarial reports and impact statements (716 actuarial reports and 444 impact statements) were received but not reviewed pursuant to law. In addition, DMS records indicated 190 reports (91 actuarial valuations and 99 impact statements) were reviewed and correspondence received from the local governments, but not resolved by DMS. We noted that a contributing factor to the untimely reviews was the fact that many local government actuarial reports were submitted to DMS on an annual basis, and DMS attempted to review them all annually, rather than reviewing them on a triennial basis, as provided by law.

Our current review disclosed that DMS had not adopted written procedures for the review of actuarial reports and impact statements. Consequently, no written guidance existed regarding DMS procedures for acknowledging and recording receipt of the reports, determining report review priorities, and documenting the progress of DMS's review to its completion. Our review disclosed that DMS recorded the receipt of actuarial reports and impact statements in its database; however, prior to September 30, 2005, DMS's policy had been to record the completion of a review only for plans with outstanding issues that were resolved. DMS typically documented this by providing a letter of "state acceptance" to the pension plan administrator and by recording "state acceptance" in the database.

Our review of DMS's status report of actuarial valuations and impact statements not yet state accepted (status report) indicated that, as of June 30, 2005, 2,909 actuarial reports and impact statements (1,802 actuarial reports and 1,107 impact statements) had been received but not reviewed by DMS. In addition, DMS records indicated 263 reports (107 actuarial reports and 156 impact statements) were reviewed and correspondence was received from the local governments, but not resolved by DMS. We were informed by DMS staff that the records supporting DMS's review of actuarial reports and impact statements could not be relied upon as an indicator of whether a report had been reviewed and accepted. With regard to the 2,909 actuarial reports and impact statements that had been received, but not reviewed, as of June 30, 2005, DMS staff stated that:

- 577 reports reviewed by DMS's actuarial consultant were not recorded as "state accepted."
- 1,805 reports were for periods that were not required to be reviewed under the provisions of law and DMS's current policy, effective September 30, 2005, which require only a triennial review; and
- 527 reports were pending review by DMS.

Our review of the 1,805 reports identified by DMS as not requiring review, disclosed that reports for 12 of 20 plans tested had not been reviewed within the past 3 years and that a review should have been scheduled as of June 30, 2005. In view of this result, as well as DMS's practice of not recording on the status report the reviews conducted by the consultant, the status report did not accurately indicate the number of plans that have been received and are subject to be reviewed. To demonstrate compliance with Section 112.63(4), Florida Statutes, DMS's review of actuarial reports and impact statements should be sufficiently documented to evidence the completed review and "state acceptance" of each report. Absent such documentation, the public has little assurance that local government pension plans have been reviewed and accepted by the State.

Recommendation: DMS should adopt written procedures for reviewing local government pension plans from acknowledging and recording receipt of an actuarial report or impact statement to completion of the review, including "state acceptance." Such procedures should be implemented to ensure that reviews by DMS are thoroughly documented and evidence all aspects of such reviews.

Finding No. 14: Actuarial Report Information Requests

As noted in our report No. 2004-006, many local governments did not timely respond to written requests from the Department of Management Services, Division of Retirement (DMS) for additional information. Chapter 2004-305, Laws of Florida, effective June 17, 2004, amended Section 112.63(4), Florida Statutes, to provide DMS with the authority to notify the pension plan administrator and request the additional information needed in instances in which a local government does not submit complete and adequate data necessary for DMS to perform its statutorily required functions. In addition, the amended law provides DMS with the authority necessary to compel local governments to respond timely to DMS requests for additional information or concerns regarding the actuarial soundness of general pension plans. This includes requiring the Department of Revenue and the Department of Financial Services to withhold certain funds. However, our current review disclosed that DMS had not established procedures to implement the authority provided.

DMS's Bureau Chief of Local Retirement Systems responded in a memorandum dated August 25, 2005, that the reason for not enacting a new procedure to implement this authority was that the 2004 amendment required "that any needed additional information must be **material**-a term that is **not defined in the Statute.** 'Material' has numerous meanings and connotations; therefore it is highly probable that the involved parties will have differences of opinion as to what constitutes 'material' information. In the absence of an appropriate definition, a request for information may very well become divisive, regarding whether the requested information is 'material' and/or how it is 'material' to the instant situation. The amendment certainly gives the Division leverage for obtaining timely responses, but the 'material' qualification is disturbing. Any requests are, and always have been, related to the requirements of section 112.665(1), or to satisfying the concern that the promised benefits are being correctly evaluated and funded." The Bureau Chief went on to say that "it is the Division's intent to amend/restate Chapter 60T-1, F.A.C., during this year. We anticipate providing therein a policy/procedure for notifying the affected pension plan's administrator and sponsor of the statutory requirements and the consequences for failing to comply. The Division intends to propose a definition of 'material' that is sufficient to fulfill our responsibility with respect to protecting the benefits of the members of Florida's local government pension plans. It is also the Division's intent to establish a reasonable period of time for response to the Division's request for additional information."

Recommendation: DMS should establish procedures to implement the provisions of Section 112.63(4), Florida Statutes, including the proper notification of pension plan administrators when requesting additional information necessary for DMS to perform its responsibilities under the law and, if necessary, by enforcing the consequences for failure to provide the required information in a timely manner.

SCOPE AND OBJECTIVES

Section 11.45(2)(h), Florida Statutes, requires the Auditor General to make a performance audit of the local government financial reporting system (System) at least every two years to determine the accuracy, efficiency, and effectiveness of the 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 program costs reduced. The "System" means any statutory provisions related to local government financial reporting and is intended to provide for timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by 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.

The scope and objectives of this audit included System components as defined by Section 11.45(2)(h), Florida Statutes, particularly as related primarily to findings included in audit report No. 2004-006 and community redevelopment agency audits.

METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent records in connection with the application of procedures required by generally accepted auditing standards and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(h), Florida Statutes, I have directed that this report be prepared to present the results of our performance audit of the local government financial reporting system.

Respectfully submitted,

William O. Monroe

William O. Monroe, CPA
Auditor General

Appendix A
Management Responses

In accordance with Section 11.45(4)(d), Florida Statutes, our preliminary and tentative audit findings were submitted for response to applicable community redevelopment agencies and State agency officials responsible for administering the local government financial reporting system. The community redevelopment agencies; Department of Financial Services; State Board of Administration, Division of Bond Finance; Department of Community Affairs; and Department of Management Services provided the responses included on pages 20 through 66. Several community redevelopment agencies furnished additional information with their written responses. The additional information was too voluminous to include within this report. To obtain copies of such information, please contact the community redevelopment agency.

Auburndale CRA, Bartow CRA, Boca Raton CRA, Bradenton CRA, City of Port St. Lucie CRA

City of Tampa CRA, City of Winter Haven CRA, CRA of Stuart, Daytona Beach CRA, Ft. Myers CRA/DDA

Gulf Breeze CRA, Hallandale Beach CRA, International Drive CRA, Jacksonville Beach CRA, Northeast CRA

Northwood/Pleasant City CRA, Orlando CRA, Palatka CRA, West Palm Beach CRA,
Winter Garden CRA

State Board of Administration, Division of Bond Finance; Department of Financial Services; Department of Management Services, Division of Retirement