

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 2002

SPONSOR: Senators King and Jones

SUBJECT: Local Government Audits

DATE: April 20, 2000

REVISED: 04/24/00 \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Cooper</u>	<u>Yeatman</u>	<u>CA</u>	<u>Fav/2 amendments</u>
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

## I. Summary:

The bill increases to \$250,000, from the current \$100,000, the amount in revenue or expenditures a municipality must exceed to be required to have a financial audit of its accounts and records conducted by a certified public accountant. For municipalities in a state of financial emergency, the threshold for an audit remains at \$100,000.

This bill amends sections 11.45, 218.32, 218.321, and 311.07 of the Florida Statutes.

## II. Present Situation:

Section 11.45(3)(a)3., F.S., provides that the Auditor General may at any time make financial and performance audits of the accounts and records of all governmental entities created by law. Pursuant to s. 11.45(3)(a)5., F.S., if a municipality is not notified by July 1 that an audit will be performed by the Auditor General, it is required to have an independent certified public accountant complete a financial audit of its accounts and records within 12 months of the end of the fiscal year *if the municipality has either expenditures or revenues in excess of \$100,000.*

The current threshold of \$100,000 was established in 1979 by ch. 79-183, L.O.F. The Auditor General notes that each year, approximately 850 local governments file an audit report with the Auditor General pursuant to s. 11.45(3)(a), F.S., including approximately 380 municipalities. These audits provide independent assessments as to the accuracy and completeness of financial statements prepared by, or on behalf of, local government entities, and provide a means for evaluating the effectiveness of a local government's internal control and determining the extent to which the local government entity has complied with applicable laws, administrative rules, contractual requirements, and good business practices. Additionally, they are used to assess financial condition, and the audit reports are required to include a statement as to whether or not the local government is in a state of financial emergency as defined by s. 218.503(1), F.S. The most recent audit reports filed with the Auditor General disclosed that 19 municipalities had revenues or expenditures between \$100,000 and \$250,000 and, as such, would not have been

required to have an audit had a \$250,000 threshold been in effect as proposed by the bill. While this is a relatively small number of municipalities, the audit reports for 4 of the 19 stated that the municipality was in a state of financial emergency. Further, for 10 of the 19, the audit report included a qualified opinion on the financial statements, several findings, and/or a significant finding such as a financial emergency.

In 1999, the Florida Legislature, through ch. 99-333, L.O.F., amended s. 11.45(3)(a), F.S., to add a subparagraph to provide for audits of charter schools. The remaining subparagraphs of the subsection were subsequently renumbered. Other sections including ss. 11.45(1)(a), 218.32(1)(d), 218.321(2), and 311.07(3)(a), F.S., that made reference to the renumbered subsections were not updated.

### III. Effect of Proposed Changes:

**Section 1** amends s. 11.45(3)(a)5., F.S., to increase the amount of revenues and expenditures of municipalities, who are not otherwise being audited by the Auditor General, to be in excess of \$250,000 before the municipality is required to do a financial audit of its accounts and records. The audit threshold remains at \$100,000 for municipalities in a state of financial emergency pursuant to s. 218.503(1), F.S.

In addition, this section amends s. 11.45(1)(a), F.S., to correct cross-reference to s. 11.45(3)(a)5., F.S., rather than s. 11.45(3)(a)4., F.S. Section 3 of ch. 99-333, L.O.F., created a new subparagraph 2. in s. 11.45(3)(a), F.S., and the cross reference was not subsequently corrected.

**Section 2** amends s. 218.32(1)(d), F.S., to correct cross-reference to s. 11.45(3)(a)5., F.S., rather than s. 11.45(3)(a)4., F.S.

**Section 3** amends s. 218.321(2), F.S., to correct cross-reference to s. 11.45(3)(a)5., F.S., rather than s. 11.45(3)(a)4., F.S.

**Section 4** amends s. 311.07(3)(a), F.S., to correct cross-reference to s. 11.45(3)(a)5., F.S., rather than s. 11.45(3)(a)4., F.S.

**Section 5** -- Provides for an effective date of July 1, 2000.

### IV. Constitutional Issues:

#### A. Municipality/County Mandates Restrictions:

None.

#### B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

**V. Economic Impact and Fiscal Note:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

It is difficult to estimate state funds that may be impacted should those municipalities who fall between \$100,000 and \$250,000 in revenues and expenditures not be required to undergo annual financial audits. According to the Auditor General, 19 municipalities had revenues or expenditures between \$100,000 and \$250,000.

Depending on the size of the budget of the municipality, the bill could save smaller municipalities expenditures on required audits.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

#1 by Comprehensive Planning, Local and Military Affairs:

This amendment maintains the threshold of \$250,000, as proposed in the bill, at which a city is required to have a financial audit, but requires cities with annual revenues or expenditures between \$100,000 and \$250,000 to be audited every four years. In addition, all local government entities that are not required to have financial audits must annually submit a copy of its financial statements to the Auditor General within 12 months after the end of its fiscal year.

#2 by Comprehensive Planning, Local and Military Affairs:

This amendment requires the Auditor General to review annual financial statements submitted by local governments.