SECTION 2 – ANNUAL FINANCIAL AUDIT

Overview

Based upon a certain revenue or expenditure threshold, local governments (i.e., all counties, municipalities with revenues or expenditures and expenses greater than $250,000, and special districts with revenues or expenditures and expenses greater than $100,000) are required to undergo an independent audit of their financial statements in accordance with established generally accepted auditing standards. Properly performed audits play a vital role in protecting the integrity of public finance operations and sustaining citizens' trust in their elected officials.

Requirements

Section 218.39, Florida Statutes, mandates an annual financial audit for local governments, requiring an independent certified public accountant to perform the audit within nine months of the fiscal year's end, with specific reporting requirements and provisions for the auditor to report on deteriorating financial conditions. The audit report must include financial statements, internal control reports, and a management letter, and the audited entity must submit a written statement explaining any findings or corrective actions.

Current audit thresholds

Section 218.39(1), Florida Statutes, requires an annual audit for each county; for a municipality with revenues or total expenditures and expenses above $250,000; and for a special district above $100,000. Municipalities between $100,000 and $250,000 and special districts between $50,000 and $100,000 must be audited at least once every three fiscal years.

The annual financial audit report may also need to include a "single audit" in accordance with the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), or as required under Section 215.97, Florida Statutes, and Chapter 10.550, Rules of the Auditor General. Additionally, Section 163.387, Florida Statutes, mandates separate audits for each community redevelopment agency (CRA) with revenues, expenditures, or expenses exceeding $100,000 in a fiscal year. These audits must be conducted by an independent certified public accountant in accordance with Section 218.39, Florida Statutes, and Chapter 10.550, Rules of the Auditor General. After completion of the audit, the auditor must discuss all comments intended for inclusion in the audit report with management, each member of the governing body and any audit committee responsible for oversight. Additionally, the auditor is required to report any identified instances of non-compliance or deficiencies in internal controls.

Single-audit thresholds

Under 2 Code of Federal Regulations (CFR) Section 200.501, a federal single or program-specific audit is generally required when federal awards expended during the fiscal year equal or exceed $1,000,000. Under Section 215.97, Florida Statutes, a Florida state single or project-specific audit, is generally required when state financial assistance expended equals or exceeds $750,000. An award agreement may impose an audit requirement below these thresholds.

The local government's response to the audit findings, including corrective action to be taken, must be filed with the local government's governing body within thirty (30) days after delivery of the audit findings. In addition, the audit findings and responses must be incorporated in the audit report and submitted to the Auditor General within forty-five (45) days after the delivery of the audit report to the local government's governing body, but no later than nine (9) months after the end of the fiscal year.

Chapter 10.550, Rules of the Auditor General, requires the management letter to include, among other things, the following:

1) 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 local governmental entity met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.
    b) A statement that the auditor applied financial condition assessment procedures.
    c) If a deteriorating financial condition(s) is noted, a statement that the local governmental entity's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor reported that the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes, this statement shall indicate whether such condition(s) resulted from a deteriorating financial condition(s).
    d) 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)
2) 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 website to the DFS website 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 website (See Section 373.536(5)(d) and (6)(d), Florida Statutes).
3) For counties as a whole, municipalities, and dependent special districts:
    a) A statement as to whether or not a property assessed clean energy (PACE) program that finances qualifying improvements authorized pursuant to Sections 163.081 or 163.082, Florida Statutes, operated within the county, municipality, or dependent special district geographical boundaries during the fiscal year under audit, regardless of whether any new financing arrangements were initiated during the period under audit or whether only preexisting financing arrangements were administered.
    b) If a PACE program was operating within the geographical area of the county, municipality, or dependent special district during the period under audit, a list of all program administrators and third-party administrators that administered the program.
    c) The full legal names and contact information of each such program administrator and third-party administrator.
4) For special districts, data required pursuant to Sections 218.32(1)(e) and 218.39(3)(a), Florida Statutes (See Rule 10.554(1)(i)(6)-(8), Rules of the Auditor General).

Additionally, Chapter 10.550, Rules of the Auditor General, requires the scope of the financial audit to include an examination pursuant to the American Institute of Certified Public Accountants (AICPA) Professional Standards, AT-C Section 315, promulgated by the AICPA, to determine the following, as applicable:

- For all local governmental entities, a determination of the entity's compliance with the requirements of Section 218.415, Florida Statutes

- 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)
- For Clerks of the Courts, a determination of the Clerk's compliance with the requirements of Sections 28.35 and 28.36, Florida Statutes
- For Clerks of the Courts, a determination of the Clerk's compliance with Section 61.181, Florida Statutes
- 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).
- For CRAs, with revenues or a total of expenditures and expenses in excess of $100,000, a determination that the CRA complied with Sections 163.387(6) and (7), Florida Statutes

The scope of the financial audit shall also include a report that includes an opinion (or disclaimer of opinion) as to whether any supplementary information, including the schedule of receipts and expenditures related to the Deepwater Horizon oil spill funds, 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 AICPA.

Audit Filing Requirements

The following audit report filing requirements apply:

- Department of Financial Services (DFS) filing requirements:
- Section 218.32(1)(c), Florida Statutes, requires each regional planning council created under Section 186.504, Florida Statutes, 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 Section 163.01(7), Florida Statutes, to submit to DFS a copy of its audit report and an annual financial report for the previous fiscal year in a format prescribed by DFS.
- Section 163.387(8)(c), Florida Statutes, requires that audit reports for CRA conducted pursuant to that section be filed with DFS.
- Auditor General filing requirements:
    - Each county, municipality, and special district are required to obtain an audit pursuant to Section 218.39, Florida Statutes, is required to file its audit report with the Auditor General.
    - Any CRA required to obtain an audit pursuant to Section 163.387, Florida Statutes, is required to file its audit report with the Auditor General.
- The audit reports referenced above are required to be submitted within 45 days of delivery of the audit report to the entity's governing body or nine months after the end of the entity's fiscal year, whichever occurs first. It should also be noted that, although the Federal Office of Management and Budget, the Government Finance Officers Association, Inc. (GFOA), and other organizations may occasionally extend their filing deadlines, insofar as the State of Florida's audit deadlines are established by Florida Statutes, those filing extensions ***do not*** apply to filing deadlines contained in Florida Statutes.
- Pursuant to Section 163.371(2), Florida Statutes, a CRA is required to file an annual report with the county or municipality that created the agency. This annual report is due by March 31 of each year, and the required content is described in Sections 163.371(2)(a)-(c), Florida Statutes

- Further, it should be noted that other entities, such as grantors and creditors, may impose additional audit report filing requirements.

Auditor Selection Process

Section 218.391, Florida Statutes, requires specific procedures to be followed by local governments with respect to selecting an auditor to conduct the annual financial audit required by Section 218.39, Florida Statutes The local government must establish an auditor selection committee to assist in the selection process.

Auditor selection committee composition requirements

- For counties, the committee must, at a minimum, consist of each elected county officer, or their respective designees, and one member of the Board of County Commissioners.
- For municipalities and special districts, the committee must have at least three members, and at least one member must be a member of the governing body, who shall serve as committee chair.
- No employee, chief executive officer, or chief financial officer may serve as a committee voting member; however, they may serve in an advisory capacity.

In addition, the GFOA, in its best practices, has recommended the following for audit committees, which may also apply to auditor selection committees:

- All members should possess or obtain a basic understanding of governmental financial reporting and auditing.
- The committee should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose.

Recognizing that smaller local governments may face challenges in finding individuals with the required experience in governmental financial reporting and auditing, the Auditor Selection Guidelines, accessible on the Auditor General's website, include a small government consideration. This suggests that smaller governments may consult with nearby larger governments to identify employees or consultants who could assist their audit committee.

The auditor selection committee shall perform the following functions:

- Establish factors to be used in the evaluation of audit services.
- Publicly announce requests for proposals.
- Provide interested firms with requests for proposals.
- Evaluate proposals provided by qualified firms.
- Rank and recommend in order of preference to the local government's governing body no fewer than three (3) firms deemed to be the most highly qualified to perform the required services. 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.

If compensation is not considered by the audit committee in evaluating proposals, the governing body shall first negotiate a contract with the firm ranked first. If a satisfactory contract cannot be reached, negotiations with that firm shall be formally terminated, and discussions shall begin with the second-ranked firm. If negotiations with the second-ranked firm fail, they shall be terminated, and negotiations shall proceed with the third-ranked firm, continuing in the same manner with subsequent firms as necessary. If compensation is a factor in the evaluation, the governing body shall select the highest-ranked firm.

Section 218.391(9), Florida Statutes, states that "If a local government fails to select the auditor in accordance with the requirements of Sections 218.391(3)-(6), Florida Statutes, the local government

must again perform the auditor selection process in accordance with this section to select an auditor to conduct audits for subsequent fiscal years."

References

- Office of Management and Budget. Official Link
- Section 163.387, Florida Statutes - Redevelopment trust fund and CRA audit requirements. Official link
- Section 215.97, Florida Statutes - Florida Single Audit Act. Official link
- Section 218.32, Florida Statutes - Annual financial reports. Official link
- Section 218.39, Florida Statutes - Annual financial audit reports. Official link
- Section 218.391, Florida Statutes - Auditor selection procedures. Official link
- Section 218.503, Florida Statutes - Determination of financial emergency. Official link
- Florida Auditor General - Current Rules, including Chapter 10.550, Local Governmental Entity Audits. Official link
- 2 CFR Part 200, Subpart F - Federal audit requirements. Official link