

STATE OF FLORIDA AUDITOR GENERAL

Performance Audit

Report No. 2023-196
June 2023

LOCAL GOVERNMENT FINANCIAL REPORTING SYSTEM



Sherrill F. Norman, CPA
Auditor General

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LOCAL GOVERNMENT FINANCIAL REPORTING SYSTEM

SUMMARY

Pursuant to Section 11.45(2)(g), Florida Statutes, this performance audit of the local government financial reporting system focused on determining the accuracy, efficiency, and effectiveness of the system in achieving its goals; how the reporting system can be improved; and how program costs can be reduced. Our audit also included a follow-up on selected findings noted in our report No. 2019-028. Our audit disclosed the following:

Finding 1: The Florida Department of Environmental Protection (DEP) should enhance its records to evidence the dates local government owners or operators of landfill facilities file audits of the escrow accounts maintained to accumulate financial resources for the proper closing and long-term care of landfills. In addition, the DEP could enhance its efforts to compel local governments to timely file the required escrow account audit reports.

Finding 2: Statutory requirements for annual audits of the local government landfill escrow accounts maintained to accumulate financial resources for the proper closing and long-term care of landfills could be clarified to ensure that the audits are properly and consistently conducted in accordance with Legislative intent.

Finding 3: Statutory requirements for annual statements of county compliance for court-related functions could be clarified to ensure that the statements are properly and consistently prepared in accordance with Legislative intent.

BACKGROUND

For purposes of State law,¹ the local government financial reporting system means any statutory provision related to local government² financial reporting. There are numerous statutory provisions related to local government financial reporting established in State law, for example:

- Section 29.0085, Florida Statutes, requires each county to annually submit to the State Chief Financial Officer (State CFO) a statement of revenues and expenditures in the form and manner prescribed by the State CFO. State law also requires that, by January 31 of each year, each county submit to the State CFO a statement of compliance from its independent certified public accountant engaged to conduct its annual financial audit indicating that the certified statement of expenditures was in accordance with State law.
- Section 403.7125(2), Florida Statutes, requires local governments that own or operate a landfill to obtain an audit of the interest-bearing escrow account maintained to ensure the availability of financial resources for the proper closure and long-term care of the landfill.

¹ Section 11.45(2)(g), Florida Statutes.

² The term "local government" refers to local governmental entities as defined in Section 218.31(1), Florida Statutes (i.e., counties, municipalities, and special districts).

- Section 218.503, Florida Statutes, requires that local government entities be subject to review and oversight by the Governor when one or more conditions specified in State law³ have occurred or will occur if action is not taken by the State to assist the local government entity.

The local government financial reporting system provisions included in the scope of this audit are described in the **FINDINGS AND RECOMMENDATIONS** and **OBJECTIVES, SCOPE, AND METHODOLOGY** sections of this report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Untimely Filed Landfill Escrow Account Audit Reports

State law⁴ requires local government entities that own or operate one or more landfills to establish a fee, a surcharge on existing fees, or other revenue-producing mechanism, to ensure the availability of financial resources for the proper closure and long-term care of the landfill.⁵ State law⁶ provides for a fine of not more than \$5,000 for failure to collect or report revenue accumulated for landfill closure and long-term care. The revenue is required to be deposited in an interest-bearing escrow account to be held and administered by the local government, which is required to annually obtain an audit of the account conducted by an independent CPA. Florida Department of Environmental Protection (DEP) rules⁷ require the local governments to:

- File with the DEP not later than March 31 of the following year:
 - A signed duplicate of the original escrow agreement.
 - The audit report that references DEP rules⁸ and the escrow agreement that includes a list, by date, of all deposits and withdrawals made and the escrow account balance as of the end of the fiscal year.
- Identify where the funds are on deposit.
- Itemize, by facility, amounts restricted for closing and long-term care.

According to DEP personnel, after receipt of the escrow account audit report, DEP personnel compare the reported escrow account balances against the most recent cost estimates and review the audit report for all required disclosures. Subsequently, DEP personnel send a letter to the local government entity either acknowledging that the escrow account funding is adequate or notifying the entity of any audit report noncompliance requiring correction. However, the DEP had not established these procedures in writing.

According to DEP records, there were 48 local government entities with 62 landfill facilities for which an escrow account audit for the 2019-20 fiscal year was required. To determine whether the local

³ Section 218.503(1), Florida Statutes, lists these conditions. For example, one such condition is the failure to make long-term debt payments when due as a result of a lack of funds.

⁴ Section 403.7125(2), Florida Statutes.

⁵ Alternatively, pursuant to Section 403.7125(3), Florida Statutes, a local government entity may utilize surety bonds, certificates of deposit, securities, letters of credit, or other documents showing that the local government has sufficient financial resources to provide for proper closure of the landfill.

⁶ Section 403.7125(2)(b), Florida Statutes.

⁷ DEP Rule 62-701.630(5)(c), Florida Administrative Code.

⁸ DEP Rule 63-701.630(5), Florida Administrative Code.

government entities timely filed the escrow account audits, we requested the DEP to provide copies of the escrow account audit reports, and the dates that the audit reports were received by the DEP. However, DEP personnel do not record the dates escrow account audit reports are received. Instead, DEP records included a “compliance date,” for each facility, which was the date DEP personnel reviewed the reported escrow account information for compliance. In March 2022, DEP personnel indicated that the recorded compliance dates were generally close to the audit report receipt dates.

As of June 2022, DEP records showed that, contrary to State law, 8 local government entities with 13 landfill facilities did not file an escrow account audit report for the 2019-20 fiscal year.⁹ In addition, according to DEP records, 17 local government entities with 21 facilities had escrow account audit report compliance dates ranging from 64 to 202 days, with an average of 129 days, after the March 31, 2021, filing deadline for the 2019-20 fiscal year. However, because the compliance date was based on when DEP personnel reviewed the escrow account audit report, rather than the audit report receipt date, DEP records did not evidence whether the reports were untimely filed or were timely filed but not promptly reviewed by DEP personnel. In response to our inquiries, DEP personnel indicated that 6 of the 17 local government entities with untimely compliance dates did not timely file the escrow account audit reports; however, due to lack of receipt records and staff shortages, DEP personnel could not provide the reasons why the other 11 local government entities had untimely compliance dates.

We also noted that, as of April 2023, the DEP had not established written policies and procedures for carrying out progressively stronger enforcement actions for local governments that did not timely file escrow account audit reports. In response to our inquiries, in June 2022, DEP provided e-mails sent to the entities during the period June 2021 to August 2021, reminding the entities that the reports were due March 31, 2021; however, although we requested, DEP personnel did not provide records demonstrating any enforcement actions for the local government entities that failed to file the required audit reports for the 2019-20 fiscal year.

Absent records showing the date escrow account audit reports were received, the DEP cannot demonstrate that the reports were timely filed. Absent timely filed escrow account audit reports, the DEP lacks assurance that sufficient revenue is being accumulated for landfill closure and long-term care. In addition, the lack of written policies and procedures requiring documented audit report receipt dates and establishing progressively stronger enforcement actions for noncompliant local government entities, there is an increased risk that the DEP will not identify late-filed reports or take appropriate enforcement actions, including collecting fines authorized by State law.

Recommendation: The DEP should establish written policies and procedures to record the receipt date of escrow account audit reports and to establish progressively stronger enforcement actions to compel local government entities to timely file escrow account audit reports that contain the elements required by State law. Such actions should include imposing the fine authorized by State law for failure to collect or report revenue accumulated for landfill closure and long-term care.

⁹ DEP personnel indicated that, as of April 2023, 4 of the local government entities with 9 facilities had filed their 2019-20 fiscal year escrow account audit reports.

Finding 2: Landfill Escrow Account Audit Report Content

As discussed in Finding 1, State law requires local government entity landfill owners or operators to ensure that resources are available to fund proper closure and long-term care requirements of the landfill.

Our review of the 40 escrow account audit reports, containing information for 49 landfill facilities, filed with the DEP for the 2019-20 fiscal year, and consideration of the provisions of State law and DEP rules governing the audit requirement, disclosed that the usefulness of the required audits could be enhanced by additional provisions in State law requiring:

- CPAs to follow specific professional standards, such as American Institute of Certified Public Accountants (AICPA) auditing standards or generally accepted government auditing standards (GAGAS), while conducting the audits. As similarly noted in our report No. 2019-028, we found that CPAs continue to reference use of different auditing standards. Specifically:
 - In 36 audit reports, containing information for 43 facilities, the CPAs referenced use of AICPA auditing standards for audits of single financial statements and specific elements, accounts, or items of a financial statement,¹⁰ and opined on a schedule of escrow account activities.
 - In 1 audit report, containing information for 2 facilities, the CPAs referenced AICPA auditing standards for information supplementary to the financial statements.¹¹ In this report the CPA opines on a schedule of escrow account activities as it relates to the financial statements taken as a whole and assurance is placed on conformity with generally accepted accounting principles.
 - In 3 audit reports, containing information for 4 facilities, the CPAs referenced use of GAGAS for audits of local governmental financial statements and included a footnote to the financial statements to address the escrow account audit requirement.

Specifying the professional standards for CPAs to use for the escrow account audits would provide consistency in the performance of the engagements and reporting and, therefore, make the engagement results more comparable for report users.

- DEP personnel to verify that the audit reports include required information in accordance with DEP rules. As similarly noted in our report No. 2019-028, we noted that the reports did not always include information required by DEP rules.¹² Specifically:
 - 10 of 40 audit reports, containing information for 13 facilities, with either escrow account deposits or withdrawals did not include a list, by date, of all the deposits and withdrawals.
 - 10 audit reports, containing information for 13 facilities, did not reference the escrow agreement.
 - 8 audit reports, containing information for 11 facilities, did not include a statement as to where the escrow funds were deposited.
 - 4 audit reports, containing information for 4 facilities did not itemize, by facility, amounts restricted for landfill closing and long-term care.

Incomplete escrow account audit reports limit the ability of DEP personnel to carry out their landfill closure oversight responsibilities.

¹⁰ AICPA Professional Standards AU-C Sections 800 and 805.

¹¹ AICPA Professional Standards AU-C 725.

¹² DEP Rule 62-701.630(5)(c), FAC.

- Penalties or other consequences be assessed for landfill owners and operators who do not timely file the escrow account audit reports with the DEP, or file audit reports that lack required information. Such assessments would help discourage untimely filings and incomplete reports.

Absent statutory provisions, or administrative rules, delineating the legislative intent for these escrow account audits, there is an increased risk for variation in the audit engagements leading to inconsistencies in reporting and the quality of assurance. Without administrative rules directing the content of the audit reports, the reports may not demonstrate compliance with all statutory provisions, frustrating the ability of the DEP to carry out its oversight responsibilities. Additional statutory provisions or administrative rules providing for DEP review of the escrow account audit reports would better ensure that all information necessary for DEP oversight is reported. In addition, the DEP's ability to enforce penalties or other consequences on local government entities for untimely filings or filings with incomplete information could be enhanced by additional statutory provisions and administrative rules. A similar finding was noted in our report No. 2019-028.

Recommendation: We recommend that the Legislature consider revising State laws, or alternatively, that the DEP revise its rules, governing local government escrow account audits to require:

- **CPAs to opine on the accuracy of local-government-reported escrow account balances and disclose in the audit reports whether the local governments complied with State law by ensuring that the escrow accounts had sufficient financial resources for proper closure and long-term care of the landfills.**
- **CPAs to follow specified professional standards, such as AICPA auditing standards or GAGAS, when conducting the audits.**
- **DEP personnel to verify that the audit reports include required information in accordance with DEP rules.**
- **Penalties or other consequences be assessed for landfill owners and operators who do not timely submit audit reports to the DEP or submit audit reports that lack required information.**

Finding 3: Statements of Court-Related Functions Compliance

As required by the State Constitution,¹³ and implemented by State law,¹⁴ counties are required to fund the cost of communications services, existing radio systems, existing multiagency criminal justice information systems, and the cost of construction or lease, maintenance, utilities, and security of facilities for the circuit and county courts, public defenders' offices, state attorneys' offices, guardian ad litem offices, and the offices of the clerks of the circuit and county courts performing court-related functions. Additionally, counties are required to pay reasonable and necessary salaries, costs, and expenses of the State Courts System to meet local requirements specified in State law.

To provide oversight of county expenditures for court-related functions, State law¹⁵ requires each county to annually submit to the State CFO a statement of revenues and expenditures in the form and manner prescribed by the State CFO. To help implement this requirement, the Department of Financial Service

¹³ Article V, Section 14 of the State Constitution.

¹⁴ Section 29.008, Florida Statutes.

¹⁵ Section 29.0085(1), Florida Statutes.

(DFS), provided counties with a template for reporting county-funded court-related functions (functions report) with instructions for completing the template.¹⁶ Additionally, State law¹⁷ requires that, by January 31 of each year, each county submit to the State CFO a statement of compliance from its independent CPA engaged to conduct its annual financial audit indicating that the certified statement of expenditures was in accordance with State law. Any discrepancies noted by the CPA are to be included in the statement of compliance, and DFS instructions require the statement of compliance to accompany the functions report, which is required to be signed by a county official attesting to its accuracy.

To further verify statutory compliance, State law¹⁸ requires the DFS to determine whether the counties expended 1.5 percent more for certain court-related functions than the amount expended in the prior fiscal year, and for noncompliant counties, the DFS is required to notify the President of the Senate, the Speaker of the House of Representatives, and the respective county. To accomplish this, the DFS compiles data from the counties' expenditures reports and publishes a *County Funded Court-Related Functions* report. The report's contents include prior year comparison data that show what expenditures should be given a 1.5 percent increase from the prior fiscal year, and the actual expenditure amounts. The *County Funded Court-Related Functions Report* is posted to the DFS Web site, and the DFS sends e-mails to the notify the President of the Senate, the Speaker of the House of Representatives with a link to the *County Funded Court-Related Functions Report*. To compel compliance in cases where a county fails to timely submit their expenditures report or fails to file a statement of compliance from their CPA, or if discrepancies are noted by the county's CPA, State law¹⁹ provides that the State CFO can use his or her staff or contract services to bring the county into compliance at the cost of the county.

To determine whether the county 2019-20 fiscal year functions reports and CPA statements of compliance required to be filed with the DFS no later than January 31, 2021, were timely filed with the DFS, we requested DFS records evidencing the filing of the functions reports and CPA statements of compliance and noted that 5 of the 67 counties did not timely file. Specifically:

- Dixie County and Jefferson County did not file a statement of compliance from their CPA with the DFS, and Dixie County also did not file a signed functions report. Further, Dixie County had not filed the statement of compliance or functions report since the 2015-16 fiscal year. In response to our March 2022 inquiries, DFS personnel indicated that no disciplinary actions had been taken against Dixie County because the County's failure to file the statements of compliance and functions report is clearly stated in the *County Funded Court-Related Functions Report* provided to the President of the Senate and the Speaker of the House of Representatives.
- 5 other counties timely filed their functions reports; however, they filed the CPA statement of compliance 10 to 56 days, an average of 26 days, after the January 31, 2021, due date. DFS records show that the 2019-20 fiscal year reporting template and instructions were originally provided to all 67 counties in a December 17, 2020, e-mail. Further, DFS personnel sent three follow-up e-mail notifications before the January 31, 2021, due date and sent a final notification on March 1, 2021, to the counties that had not yet filed. Untimely filed CPA statements of compliance may delay the statutorily required DFS reporting.

¹⁶ The DFS annually e-mails the reporting template, the template instructions, and the due date.

¹⁷ Section 29.0085(2)(a), Florida Statutes.

¹⁸ Section 29.008(4)(a), Florida Statutes.

¹⁹ Section 29.0085(2)(b), Florida Statutes.

Our June 2022 inquiries with DFS personnel regarding these filing deficiencies disclosed that the DFS does not have policies and procedures for exercising the State CFO's authority under State law²⁰ to bring counties into compliance. In addition, DFS personnel indicated that they consider themselves merely a repository for the CPA statements of compliance. Notwithstanding, failure to apply remedies specified in State law to compel counties to timely file functions reports and CPA statements of compliance results in the reporting of incomplete county-funded court-related functions data to the President of the Senate, the Speaker of the House of Representatives, other decision-makers, interested parties, and members of the public.

Our review of the 2019-20 fiscal year CPA statements of compliance filed as of March 2022 and consideration of the provisions of State law disclosed that additional statutory provisions or administrative rules could improve the reporting process and enhance the assurances provided by, and comparability of, the reports and statements. Specifically:

- Specifying in State law or DFS rules the professional standards for CPAs to follow, such as the AICPA attestation standards, or AICPA auditing standards, when conducting the audits would provide consistency in the compliance statement methodology and reporting and, therefore, make the costs and results presented in the compliance statements more comparable. For the 65 CPA statements of compliance filed, we found that the CPAs:
 - Referenced AICPA examination attestation standards²¹ in 34 statements.
 - Referenced use of AICPA auditing standards²² in 15 statements.
 - Referenced use of AICPA agreed-upon procedures attestation standards²³ in 13 statements.
 - Did not reference any professional standards used in 3 statements.
- Requiring DFS personnel to verify that the CPA statements of compliance were prepared in accordance with the requirements in State law, DFS instructions, and applicable professional standards. We found that:
 - Contrary to DFS instructions, 8 statements of compliance were not accompanied by the functions report on which the CPA was providing assurance. Absent the functions report, users of the 8 statements of compliance may lack access to the expenditures amounts and other expenditure information the CPAs stated were reported in accordance with State law. In addition, when the CPA statement of compliance is not submitted in the same document as the functions report, DFS personnel have limited assurance that the separately filed functions reports contain the information on which the CPAs provided assurance.
 - The DFS lacked procedures requiring DFS personnel to verify that the functions report data used by the DFS to compile the *County Funded Court-Related Functions Report*, agrees with the data on the signed copy of the template attested to by a county official, and on which the CPAs provide assurance. As such, the possibility exists that the *County Funded Court-Related Functions* report provided by the DFS to the President of the Senate and the Speaker of the House of Representatives contains inaccurate data.
- Clarifying what provisions of law are subject to the CPAs determination of compliance, and what constitutes a discrepancy to be reported by the CPAs. Our examination of the 65 CPA statements of compliance filed for the 2019-20 fiscal year disclosed that the CPAs did not always audit county compliance with the same statutory requirements. For example, while 24 statements on

²⁰ Section 29.0085(2)(b), Florida Statutes.

²¹ AICPA Professional Standards, AT-C Section 200.

²² AICPA Professional Standards, AU-C Section 805.

²³ AICPA Professional Standards, AT-C Section 215.

compliance reported noncompliance with the requirement to expend 1.5 percent more court-related function expenditures than expended in the prior fiscal year, the other 41 statements of compliance did not specifically mention compliance with that requirement; consequently, it was not apparent that the CPAs tested compliance with that requirement. Since State law charges the DFS with determining county compliance with the increased expenditure requirement, CPA determination efforts for the 24 counties appear unnecessary and duplicative of DFS procedures.

Without clearly prescribing the provisions of law to be addressed by the CPAs in the statements of compliance, and identifying the professional standards to follow, there is an increased risk of engagements with varied scopes, inconsistencies in audit procedures, and audit cost variances. Also, without a statutory requirement for DFS personnel to verify that CPA statements of compliance are properly prepared, there is an increased risk that counties are not reporting their court-related revenues and expenditures as contemplated in State law. A similar finding was noted in our report No. 2019-028,

Recommendation: The Legislature should consider revising State law, or alternately, the DFS should consider adopting administrative rules governing CPA statements of compliance to:

- **Require CPAs to follow specified professional standards, such as AICPA examination attestation standards or AICPA auditing standards, when providing assurance on the statements of compliance.**
- **Require DFS personnel to document verification that the CPA statements of compliance were prepared in compliance with State law, DFS rules and instructions, and applicable professional standards.**
- **Clarify what provisions of law should be addressed in the CPAs' determinations of compliance so that the determinations are not duplicative of DFS procedures.**

In addition, we recommend that the DFS apply remedies specified in State law to compel counties to timely file functions reports and CPA statements of compliance.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Executive Office of the Governor, the Department of Financial Services, and the Department of Environmental Protection had taken corrective actions for selected findings included in our report No. 2019-028.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts performance audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

Pursuant to Section 11.45(2)(g), Florida Statutes, the purpose of this performance audit was to determine the accuracy, efficiency, and effectiveness of the local government financial reporting system in achieving its goals and to make recommendations to local governments, the Governor, and the Legislature as to how the reporting system can be improved and how program costs can be reduced. The local government financial reporting system should provide for the timely, accurate, uniform, and cost-effective

accumulation of financial and other information that can be used by the members of the Legislature and other appropriate officials to accomplish the following goals:

- 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 government.

We conducted this performance audit from February 2022 through April 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This performance audit focused on the Office of the Chief Inspector General's administration of financial emergency notifications under Section 218.503, Florida Statutes; the Department of Financial Services' administration of court-related expenditure reporting under Section 29.0085, Florida Statutes; and the Department of Environmental Protection's administration of landfill escrow account audit reporting under Section 403.7125, Florida Statutes. The overall objectives of this performance audit were to:

- Evaluate:
 - The effectiveness of controls designed and placed in operation by management to promote and encourage the economy, efficiency, and effectiveness in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
 - The structure and design of managements' policies and procedures to accomplish the goals and objectives of applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
 - The adequacy of the applicable laws and administrative rules to meet the needs identified by the Legislature.
 - Alternative methods of accomplishing goals, objectives, and needs identified by the Legislature.
 - The goals, objectives and performance measures used to monitor and report their responsibilities under applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
 - The accuracy or adequacy of public documents of public documents, reports, or requests prepared by the agencies in their administration of the applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
 - Compliance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- Determine whether management had corrected, or was in the process of correcting, selected findings disclosed in our report No. 2019-028.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, or other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The overall objective of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of records for the audit period October 2019 through June 2021, and selected actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination. An audit by its nature does not include a review of all records and actions of agency management and personnel, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, policies, and procedures, and interviewed Executive Office of the Governor (EOG) personnel to gain an understanding of and evaluate the EOG's processes for:
 - Determining whether local government entities were in a state of financial emergency.
 - Tracking and monitoring entities determined to be in a state of financial emergency.
 - Providing assistance to entities in a state of financial emergency.
 - Notifying the Legislative Auditing Committee (LAC) when entities do not timely comply with EOG requests for additional information.
 - Removing entities from financial emergency status.
- From the population of 55 notifications for 55 entities that, during the period October 2019 through June 2021, had either met a specified condition as defined by Section 218.503(1), Florida Statutes, or would meet a specified condition unless action was taken to assist the entity, examined records supported all 55 entities to determine whether the EOG timely:
 - Contacted the local governmental entity to obtain information needed to determine whether the entity required State assistance pursuant to Section 218.503(3), Florida Statutes.

- Notified the LAC if the entity did not respond to the EOG information request with the 45-day period prescribed by Section 218.503(3), Florida Statutes.
- Determined whether the entity was in a state of financial emergency.
- From the population of 23 local government entities determined by the EOG as being in financial emergency status as of April 2022, determined whether all 23 entities filed an annual financial audit report, if required by Section 218.39, Florida Statutes, and whether the entities continued to meet specified conditions as defined by Section 218.503(1), Florida Statutes.
- Reviewed the provisions of Sections 29.008, and 29.0085, Florida Statutes, requiring counties to fund court-related function expenditures, report those expenditure amounts in a functions report, and file a statement of compliance prepared by a certified public accountant (CPA) to the Department of Financial Services (DFS). We also evaluated the procedures and processes used by the DFS to implement the provisions of those statutes.
- Examined the 66 county 2019-20 fiscal year functions reports filed as of March 2022 with the DFS pursuant to Section 29.0085(1), Florida Statutes, to determine the extent of compliance with State law and DFS policies and procedures. In addition, we evaluated the adequacy of DFS efforts to compel counties to timely file the required functions reports.
- Examined all 65 county 2019-20 fiscal year statements of compliance submitted by independent CPAs filed with the DFS as of March 2022 pursuant to the Section 29.0085(2)(a), Florida Statutes, to determine whether the CPAs demonstrated a clear understanding of their reporting responsibilities under State law and consistently prepared the statements of compliance in accordance with applicable reporting requirements. In addition, we evaluated the adequacy of DFS efforts to compel counties to timely file the required statements of compliance.
- Reviewed the provisions of Section 403.7125, Florida Statutes, and Department of Environmental Protection (DEP) Rule 62-701.630, Florida Administrative Code, to gain an understanding of the local government owned or operated landfill facilities audits of escrow accounts for the accumulation of resources for cost of landfill long-term care and closure. We also interviewed DEP personnel to gain an understanding of and evaluate the adequacy of the DEP's processes for implementing the requirements of the statutes and the rule.
- From the 48 local governments that owned or operated 62 landfill facilities that administered an escrow account for landfill long-term care and closure costs, reviewed the 40 escrow audit reports, comprising information for 49 landfill facilities, filed with the DEP as of March 2022 for the 2019-20 fiscal year to determine whether the CPAs demonstrated a clear understanding of their reporting responsibilities under State law and consistently prepared the audit reports in accordance with applicable reporting requirements.
- Evaluated the adequacy of DEP processes to compel the 8 local governments that were required to file, but had not filed as of March 2022, a 2019-20 fiscal year escrow account audit report for 13 landfill facilities.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(g), Florida Statutes, I have directed that this report be prepared to present the results of our performance audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



FLORIDA DEPARTMENT OF Environmental Protection

Marjory Stoneman Douglas Building
3900 Commonwealth Boulevard
Tallahassee, FL 32399

Ron DeSantis
Governor

Jeanette Nuñez
Lt. Governor

Shawn Hamilton
Secretary


June 14, 2023

Ms. Sherrill F. Norman, CPA
Auditor General, State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman,

Enclosed is the Department's response to the preliminary and tentative audit findings and recommendations for the performance audit of the Local Government Financial Reporting System. Thank you for the opportunity to review and comment on this audit report. If you have any questions, or require additional information, please contact Candie Fuller, Inspector General, at (850) 245-2548.

Sincerely,

 Digitally signed by
Shawn Hamilton
Date: 2023.06.14
08:39:21 -04'00'

Shawn Hamilton
Secretary

SH/cmf

Enclosures

cc: Anna DeCerchio, Chief of Staff
Justin Wolfe, Regulatory Programs, Acting Deputy Secretary
Tim Bahr, Division of Waste Management, Director

Department of Environmental Protection
Response to Preliminary and Tentative Audit Findings
Auditor General Performance Audit

This performance audit focused on the local government financial reporting system focused on determining the accuracy, efficiency, and effectiveness of the system in achieving its goals; how the reporting system can be improved; and how program costs can be reduced. This audit also included a follow-up on selected findings noted in Auditor General report No. 2019-028.

Finding 1: Untimely Filed Landfill Escrow Account Audit Reports

The Florida Department of Environmental Protection (DEP) should enhance its records to evidence the dates local government owners or operators of landfill facilities file audits of the escrow accounts maintained to accumulate financial resources for the proper closing and long-term care of landfills. In addition, the DEP could enhance its efforts to compel local governments to timely file the required escrow account audit reports.

Recommendation: The DEP should establish written policies and procedures to record the receipt date of escrow account audit reports and to establish progressively stronger enforcement actions to compel local government entities to timely file escrow account audit reports that contain the elements required by State law. Such actions should include imposing the fine authorized by State law for failure to collect or report revenue accumulated for landfill closure and long-term care.

Department Response: Pursuant to paragraph 62-701.630(5)(c), F.A.C., local government solid waste facilities that maintain escrow accounts, to satisfy financial responsibility requirements, must submit an audit of the escrow account by March 31 of each year. Starting immediately the Department will record the following dates in our solid waste financial assurance ACCESS database, for each of these facilities:

- Date that the audit is submitted to the Department.
- Date that the Department deems the audit complete (i.e., it meets the rule requirements).

The Department will apply a more robust strategy to compel local governments to submit escrow audits in a timely manner. The following procedures will be implemented:

- A reminder regarding the due date for escrow audits will be added to the cost estimate notice that is sent to all solid waste facilities in July.
- During the last week of January, a new reminder letter will be sent to facilities utilizing escrow accounts to comply with financial responsibility requirements. This will provide notice approximately 60 days prior to the audit due date of March 31st.
- A delinquency notice will be sent during the first week of April to those local governments that failed to submit their escrow audits by March 31st. The notice will state that the local government is out of compliance with financial assurance

requirements, that statutory fines could be leveled and that the audit must be submitted within 30 days.

- If a local government has not submitted an escrow audit by mid-May, a notice will be sent to the Chairman of the Commission for the local government. The notice will detail rule requirements and potential penalties for non-compliance.

Finding 2: Landfill Escrow Account Audit Report Content

Statutory requirements for annual audits of the local government landfill escrow accounts maintained to accumulate financial resources for the proper closing and long-term care of landfills could be clarified to ensure that the audits are properly and consistently conducted in accordance with Legislative intent.

Recommendation: We recommend that the Legislature consider revising State laws, or alternatively, that the DEP revise its rules, governing local government escrow account audits to require:

- CPAs to opine on the accuracy of local-government-reported escrow account balances and disclose in the audit reports whether the local governments complied with State law by ensuring that the escrow accounts had sufficient financial resources for proper closure and long-term care of the landfills.
- CPAs to follow specified professional standards, such as AICPA auditing standards or GAGAS, when conducting the audits.
- DEP personnel to verify that the audit reports include required information in accordance with DEP rules.
- Penalties or other consequences be assessed for landfill owners and operators who do not timely submit audit reports to the DEP or submit audit reports that lack required information.

Department Response: Section 403.7125(2)(b), F.S., requires local governments to file with the Department an annual audit of their interest-bearing escrow account conducted by an independent CPA. The Department’s requirements for audits of local government escrow accounts are established in paragraph 62-701.630(5)(c), F.A.C. The statute and regulation do not specify professional standards for CPAs to follow when conducting these audits and consequently, the auditing standard is at the discretion of the CPA.

The Department concurs that the usefulness of the required escrow audits could be enhanced by requiring CPAs to follow specific professional standards, such as the AICPA auditing standards. However, because the statute does not direct the Department to specify the professional accounting standards for CPAs to follow when conducting the audits, the Department needs to further evaluate its authority to impose this requirement by rule.



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

June 12, 2023

Sherrill F. Norman
Auditor General
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, the enclosed response is provided for the preliminary and tentative audit findings included in the Auditor General's performance audit of the *Local Government Financial Reporting System*.

If you have any questions concerning this response, please contact Debbie Clark at (850) 413-4953.

Sincerely,

A handwritten signature in blue ink that reads "Jimmy Patronis".

Jimmy Patronis
Chief Financial Officer

JP/DC
Enclosure

DEPARTMENT OF FINANCIAL SERVICES
THE CAPITOL, TALLAHASSEE, FLORIDA 32399-0301 • (850) 413-2850 FAX (850) 413-2950

DEPARTMENT OF FINANCIAL SERVICES
AG Audit of the Local Government Financial Reporting System

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 3: Statements of Court-Related Functions Compliance

Statutory requirements for annual statements of county compliance for court-related functions could be clarified to ensure that the statements are properly and consistently prepared in accordance with Legislative intent.

Recommendation:

The Legislature should consider revising State law, or alternately, the DFS should consider adopting administrative rules governing CPA statements of compliance to:

- Require CPAs to follow specified professional standards, such as AICPA examination attestation standards or AICPA auditing standards, when providing assurance on the statements of compliance.
- Require DFS personnel to document verification that the CPA statements of compliance were prepared in compliance with State law, DFS rules and instructions, and applicable professional standards.
- Clarify what provisions of law should be addressed in the CPAs' determinations of compliance so that the determinations are not duplicative of DFS procedures.

In addition, we recommend that the DFS apply remedies specified in State law to compel counties to timely file functions reports and CPA statements of compliance.

DFS Division: Division of Accounting and Auditing

Response: We agree that the process can be improved. The Auditor General found some instances where certification statements of compliance were not accompanied by the functions report provided by a CPA. Further, DFS lacked procedures to verify that the functions report data agreed with the data on the signed copy of the template attested to by county officials.

The Division of Accounting & Auditing is updating its internal policies and procedures to provide assurance that court-related functions data is properly submitted and reported.

With regards to AICPA professional standards and compliance with s. 29.008, FS, DFS will need to work collaboratively with the Auditor General and have ongoing conversations for defining compliance and establishing which auditing standards should be required. Section 29.0085(2)(a), FS, provides that within four months of the close of the local government fiscal year, each county shall submit to the Chief Financial Officer a statement of compliance from its independent certified public accountant, engaged pursuant to s. 218.39, FS, that the certified statement of expenditures was in accordance with s. 29.008, FS, and this section.

DEPARTMENT OF FINANCIAL SERVICES

AG Audit of the Local Government Financial Reporting System

Since 218.39, FS is the Auditor General's statute which provides that all audits conducted pursuant to that section must be conducted in accordance with the rules of the Auditor General adopted pursuant to s.11.45, FS, we will work in consultation with Auditor General and the Florida Clerk of the Court Operations Corporations in providing this guidance.

Finally, the application of remedies should be considered on a case by case bases.

Expected Completion Date for Corrective Action: September 1, 2023