

STORAGE NAME: h0731a.ft

DATE: March 10, 2000

**HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FINANCE & TAXATION
ANALYSIS**

BILL #: HB 731

RELATING TO: Local Government Audits/Municipality

SPONSOR(S): Representative Sorensen

TIED BILL(S): None

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) COMMITTEE ON COMMUNITY AFFAIRS (PRC) YEAS 10 NAYS 0
 - (2) FINANCE & TAXATION YEAS 12 NAYS 0
 - (3) GENERAL GOVERNMENT APPROPRIATIONS (FRC)
 - (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. The bill also corrects cross-references.

The bill appears to have no impact on state revenues.

There is one amendment traveling with the bill.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. 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 Chapter 79-183, Laws of Florida. According to information provided by the City of Layton, if this \$100,000 were adjusted for the consumer price index since 1978, the amount would exceed \$200,000. For some municipalities the cost of a financial audit is a significant concern. In the City of Layton, for example, the cost of a municipal audit is approximately five percent of the operating budget.

The Auditor General, in a letter to Representative Sorensen dated January 31, 2000, provided the following information about local government audits:

Each year, approximately 850 local governments file an audit report with the Auditor General pursuant to Section 11.45(3)(a), Florida Statutes, 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 Section 218.503(1), Florida Statutes.

In 1999, the Florida Legislature, through Chapter 99-333, Laws of Florida, 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 s. 11.45(1)(a), s. 218.32(1)(d), s. 218.321(2), and s. 311.07(3)(a), F.S., that made reference to the renumbered subsections were not updated.

C. EFFECT OF PROPOSED CHANGES:

The bill amends s. 11.45(3)(a)5., F.S., to increase to \$250,000, from the current \$100,000, the amount in revenue or expenditures a municipality must exceed to be required to complete a financial audit of its accounts and records. The bill provides that the threshold for a financial audit shall remain at \$100,000 for those municipalities in a state of financial emergency as provided by s. 218.503(1), F.S.

The Auditor General, in a letter to Representative Sorensen dated January 31, 2000, provided the following information about the impact of the bill:

Our analysis of 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, we noted that 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. Had these entities not been subject to an audit, the governing bodies of these local governments, the Legislature, and the general public probably would not have been made aware of these findings.

The bill also corrects cross-references in s. 11.45(1)(a), s. 218.32(1)(d), s. 218.321(2), and s. 311.07(3)(a), F.S. These changes are necessary due to language that was added during the 1999 legislative session.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 -- Amends s. 11.45(1)(a), F.S., to correct cross-reference to 11.45(3)(a)5., F.S., rather than 11.45(3)(a)4., F.S. Amends 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.

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

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

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

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

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The bill has no direct effect on state revenues.

2. Expenditures:

It is difficult to estimate state funds that may be impacted should those municipalities who fall between \$100,000 and \$250,000 in revenues & 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. Four of the 19 were in a state of financial emergency and 10 of the 19 had a qualified opinion or significant finding with respect to the audit. Without the financial audit, some small municipalities may fall into a budget crisis necessitating state financial assistance.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The bill has no direct effect on local government revenues.

2. Expenditures:

Depending on the size of the budget of the municipality, the bill could save smaller municipalities expenditures on required audits. However, if the financial audits are not required to be performed, some small municipalities may fall into a budget crisis necessitating state financial assistance, local revenue raising, or eventual dissolution.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill has no direct economic impact on the private sector.

D. FISCAL COMMENTS:

None

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require counties or municipalities to spend funds or take any actions requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority of counties or municipalities to raise revenues in the aggregate, as such authority existed on February 1, 1989.

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C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The bill does not reduce the percentage of a state tax shared with counties and municipalities as an aggregate, as such existed on February 1, 1989.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None

B. RULE-MAKING AUTHORITY:

None

C. OTHER COMMENTS:

None

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

One amendment was adopted by the Committee on Community Affairs on February 22, 2000. The amendment was introduced in response to information provided by the Auditor General which indicated problems with the audits of some of the municipalities that would be affected by this legislation. The amendment provides that municipalities with revenues and expenditures between \$100,000 and \$250,000, who are not in a state of financial emergency, would only be required to do an audit once every three years rather than annually.

An amendment to the amendment was adopted by the Committee on Finance and Taxation on March 9, 2000. This amendment to the amendment removed the proposed s. 11.45(1)(a)5.b., F.S., from the original amendment due to concerns expressed by the Office of the Auditor General. In addition, the amendment to the amendment corrected several grammatical errors.

VII. SIGNATURES:

COMMITTEE ON COMMITTEE ON COMMUNITY AFFAIRS:

Prepared by:

Kyle V. Mitchell

Staff Director:

Joan Highsmith-Smith

AS REVISED BY THE COMMITTEE ON FINANCE & TAXATION:

Prepared by:

Kama D.S. Monroe

Staff Director:

Alan Johansen