

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Budget Committee

BILL: CS/SB 1292

INTRODUCER: Governmental Oversight and Accountability Committee and Senator Alexander

SUBJECT: Chief Financial Officer/Chart of Accounts

DATE: March 28, 2011 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>McKay</u>	<u>Roberts</u>	<u>GO</u>	<u>Fav/CS</u>
2.	<u>Leadbeater</u>	<u>Meyer, C.</u>	<u>BC</u>	<u>Pre-meeting</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

Please see Section VIII. for Additional Information:

- | | | |
|------------------------------|-------------------------------------|---|
| A. COMMITTEE SUBSTITUTE..... | <input checked="" type="checkbox"/> | Statement of Substantial Changes |
| B. AMENDMENTS..... | <input type="checkbox"/> | Technical amendments were recommended |
| | <input type="checkbox"/> | Amendments were recommended |
| | <input type="checkbox"/> | Significant amendments were recommended |

I. Summary:

Provides definitions. Requires governmental entities (state agencies, local governments, educational entities, and entities of higher education) to report their financial data in accordance with the requirements of the Chief Financial Officer by a certain date. Requires the Chief Financial Officer to adopt charts of accounts that meet certain requirements by a certain date. Requires periodic reviews, consultations, and update of the charts of accounts. Requires the Chief Financial Officer to adopt certain procedures relating to the charts of accounts. Provides a declaration of important state interest.

II. Present Situation:

Presently the CFO maintains two different kinds of charts of accounts, one for state agencies and one for local governments. The CFO does not maintain the accounting structures for the State's educational entities or institutions of higher education. Several entities defined as state agencies in this bill, including the Florida Housing Finance Corporation, the State Board of Administration, as well as all local governments, and education entities, do not use the state's accounting system, Florida Accounting Information Resource (FLAIR). These entities have

their own accounting systems with their financial data management codes that are unique to their operations. In addition, some entities are governed by and audited under accounting and auditing standards different from the state.

The Florida Accounting Information Resource System

The Florida Accounting Information Resource System (FLAIR) is one of the subsystems of the Florida Financial Management Information System established in s. 215.93, F.S. The Department of Financial Services (DFS) is the functional owner of FLAIR, which must include the following functions.

- Accounting and reporting so as to provide timely data for producing financial statements for the state in accordance with generally accepted accounting principles.
- Auditing and settling claims against the state.

According to the FLAIR Procedures Manual:

To conform with GASB Statement No. 1, General Principles Section 1800, a chart of State Standard codes has been developed for the State of Florida which classifies Organizational structures, Budget Entities, Internal Budget Indicators, Funds, General Ledger Codes, Object Codes, Appropriation Categories, and State Programs. It also provides for other classifications as they are required. The Florida Accounting Information Resource System further provides for fund accounting, budgetary accounting, financial accounting and legal compliance with the statutes of the State of Florida.¹

Local Government Annual Financial Reports

Section 218.32 (1), F.S., requires that local governments submit to DFS an Annual Financial Report covering their operations for the preceding fiscal year. DFS makes available to local governments an electronic filing system that accumulates the financial information reported on the annual financial reports in a database and makes that information available to the public in an electronic format.

In order to improve government accountability by making financial information reported by Florida's local governments more comparable, thereby enabling local taxpayers and local policy makers to better understand and evaluate local government service delivery and operations, all local governmental entities are required to use accounting principles, such as the Uniform Accounting System Chart of Accounts when completing their Annual Financial Report.

Submission of the annual report depends on whether or not the local government entity is required to have an annual audit; if no audit is required the deadline is April 30 of each year, and

¹ FLAIR Procedures Manual, September 1, 2007, chapter 2, page 1, last visited on March 8, 2011:
<http://www.myfloridacfo.com/aadir/docs/FLAIRProceduresCh.1-7.pdf>

if an audit is required the deadline is no later than 12 months after the end of the fiscal year. If DFS does not receive a completed annual financial report from a local government entity within the required period, DFS must notify the Legislative Auditing Committee, which must schedule a hearing.

If the Legislative Auditing Committee determines that an entity should be subject to further state action, the committee must:

- In the case of a local government entity or a district school board, direct the Department of Revenue and the Department of Financial Services to withhold any funds not pledged for bond debt service satisfaction until the local government entity or the district school board is in compliance. The committee must specify the date that action will begin and both departments must receive notification 30 days before the date the withheld funds would normally be distributed.²
- In the case of a special district, the committee must notify the Department of Community Affairs and the department must offer assistance to the special district. If the district continues in noncompliance, the department must petition the circuit court in Leon County for a writ of certiorari, and the court must award attorney costs and court fees to the prevailing party.³
- In the case of a charter school or charter technical career center, the committee must notify the appropriate sponsoring entity that may terminate the charter.⁴

Local Government Accounting Practices and Procedures

Section 218.33(2), F.S., requires each local governmental entity to follow uniform accounting practices and procedures as promulgated by rule of DFS to assure the use of proper accounting and fiscal management by such units. The rules must include a uniform classification of accounts.

Local Government Annual Financial Audit Reports

Section 218.39, F.S., provides that if a local government will not be audited by the Auditor General, the local government must provide for an annual financial audit to be completed within 12 months after the end of the fiscal year. The audit must be conducted by an independent certified public accountant retained by the entity and paid for from public funds. The entities are:

- Each county, district school board, charter school, or charter technical center;
- Each city with revenues or expenditures and expenses of more than \$250,000;
- Each special district with revenues or expenditures and expenses of more than \$100,000;
- Each city with revenues or expenditures and expenses between \$100,000 and \$250,000 that has not been audited within the 2 preceding fiscal years; and
- Each special district with revenues or expenditures and expenses between \$50,000 and \$100,000 that has not been audited within the 2 preceding fiscal years.

² Section 11.40(5), F.S.

³ See s. 189.421(3), F.S.

⁴ See s. 11.40(5), F.S.

Uniform Records and Accounts – Education

Pursuant to s. 1010.01, F.S., the financial records and accounts of each school district, community college, and other institution or agency under the supervision of the State Board of Education must be prepared and maintained as prescribed by law and rules of the State Board of Education. The financial records and accounts of each state university under the supervision of the Board of Governors must be prepared and maintained as prescribed by law and rules of the Board of Governors.

Rules of the State Board of Education and rules of the Board of Governors must incorporate the requirements of law and accounting principles generally accepted in the United States, and the rules must include a uniform classification of accounts.

Each state university must annually file with the Board of Governors financial statements prepared in conformity with accounting principles generally accepted by the United States and the uniform classification of accounts prescribed by the Board of Governors.

Required financial accounts and reports must include provisions that are unique to each of the following: K-12 school districts, community colleges, and state universities, and must provide for the data to be reported to the National Center of Educational Statistics and other governmental and professional educational data information services as appropriate.

Cost Accounting and Reporting – School Districts

Each school district must account for expenditures of all state, local, and federal funds on a school-by-school and a district-aggregate basis in accordance with the manual developed by the Department of Education (DOE) or as provided by law.⁵ The DOE has incorporated into an administrative rule⁶ the Financial and Program Cost Accounting and Reporting for Florida Schools (Redbook 2001), which provides Florida school districts with a uniform chart of accounts for budgeting and financial reporting.

The chart of accounts included in the Redbook is adapted from the United States Department of Education publication, *Financial Accounting for Local and State School Systems*, which establishes a comprehensive and uniform structure for reporting education fiscal data. The Florida chart of accounts was modified following the initial publication of the Federal manual in 1957 and the major revision of 1973. Subsequent Federal revisions in 1980 and 1990 have also been addressed to ensure compatibility in national statistical reports.⁷

⁵ Section 1010.20(1), F.S.

⁶ Rule 6A-1.001, F.A.C.

⁷ Financial and Program Cost Accounting and Reporting for Florida Schools (Redbook 2001), 1-1

Constitutional Duties of the Chief Financial Officer

Article IV, section 4(c) of the Florida Constitution provides that “the chief financial officer shall serve as the chief financial officer of the state, and shall settle and approve accounts against the state, and shall keep all state funds and securities.”

III. Effect of Proposed Changes:

Section 1, Paragraph (1) Provides intent of the Legislature that uniform reporting requirements be developed specifically to promote accountability and transparency.

Paragraph (2) "Definitions": defines Chart of Account for purposes of the section. The bill expands the definition for "State Agencies" and "Local Governments" to include entities that have not historically been considered "State Agencies" or "Local Governments" in other statutes. This bill may require these entities to meet financial reporting requirements they have previously not addressed.

Paragraph (3), Implementation of Reporting Structure: The bill directs the CFO to conduct workshops with affected governmental entities to gather reporting requirements, and to issue proposed charts of accounts by July 1, 2013. Comments to the proposed accounts will be received by November 1, 2013. By January 1, 2014, the CFO shall adopt charts of accounts meeting specified conditions. Beginning the next fiscal year (July 1 for state agencies and universities, October 1, for local governments) the new chart of accounts will be adopted. The CFO shall periodically update the charts of accounts and annually, in consultation with the Legislature, Auditor general, and affected parties, review the validity of the data reported.

This part also requires the CFO to create where feasible "at least two additional levels of specificity on the expenditure of public funds". The basic form of the state's high-level chart of account elements for General Ledger and Object Code have not changed in over twenty-five years. The codes were developed with a general value for state-wide reporting with additional values available for each agency to define agency unique codes that would roll up to the state-wide value. This section's requirement may necessitate that the Division of Accounting and Auditing to curtail or reduce the current practice in FLAIR of agencies having agency specific values established at a greater level of detail than provided for General Ledger codes and Object codes. There will be significant work needed to address the standardization of values used in these chart fields that is acceptable to many user agencies that define different meanings to common values.

Section 2. Section 120.52(16(c)2, F.S., is amended to provide that information issued on chart of accounts is not considered a Rule.

Section 3. Legislative finding of the act fulfills an important state interest.

Section 4. The act takes effect July 1, 2011.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

To the extent this bill requires cities and counties to expend funds to comply with the charts of accounts developed by the chief financial officer, the provisions of Section 18(a) of Article VII of the State Constitution may apply. If those provisions do apply, in order for the law to be binding upon the cities and counties, the legislature must find that the law fulfills an important state interest (see section 2) and one of the following relevant exceptions must apply:

- Funds estimated at the time of enactment to be sufficient to fund such expenditures are appropriated;
- Counties and cities are authorized to enact a funding source not available for such local government on February 1, 1989, that can be used to generate the amount of funds necessary to fund the expenditures;
- The expenditure is required to comply with a law that applies to all persons similarly situated; or
- The law must be approved by two-thirds of the membership of each house of the legislature.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

State Agencies:

	(FY 10-11) Amount / FTE	(FY 11-12) Amount / FTE	(FY 12-13) Amount / FTE
Expenditures			
1. Recurring		\$212,932 / 4	\$212,932 / 4
2. Non-Recurring		\$16,000 / 4	

Local Governments:

This requirement would require that local governments and other governmental entities modify their current accounting systems to enable them to report to the CFO in conformity with a uniform State chart of accounts. Costs are not estimated and are likely to be significant.

VI. Technical Deficiencies:

None.

VII. Related Issues:

SJR 1276 proposes a constitutional amendment providing the CFO with constitutional authority for implementing the charts of accounts. If SB 1292 is to be enacted without a constitutional amendment, the Legislature may want to clarify any necessary statutory authority for the CFO to carry out the duties required in this bill.

VIII. Additional Information:

- A. **Committee Substitute – Statement of Substantial Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Governmental Oversight and Accountability on March 15, 2011:

The CS removes a definition of “statutorily authorized governmental entities,” and the requirement that those entities maintain financial data in a manner consistent with the applicable financial data management codes adopted by the CFO.

The CS also removes the effective date contingency with SJR 176, and specifies that the effective date is July 1 , 2011.

- B. **Amendments:**

None.