

**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.)

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Prepared By: The Professional Staff of the Committee on Rules

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BILL: CS/CS/CS/SB 1372

INTRODUCER: Rules Committee; Community Affairs Committee; Ethics and Elections Committee; and Senator Gaetz

SUBJECT: Government Accountability

DATE: April 21, 2015

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Carlton</u>	<u>Roberts</u>	<u>EE</u>	<u>Fav/CS</u>
2.	<u>Stearns</u>	<u>Yeatman</u>	<u>CA</u>	<u>Fav/CS</u>
3.	<u>Carlton</u>	<u>Phelps</u>	<u>RC</u>	<u>Fav/CS</u>

**Please see Section IX. for Additional Information:**

COMMITTEE SUBSTITUTE - Substantial Changes

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**I. Summary:**

CS/CS/CS/SB 1372 is an omnibus government accountability bill. The bill includes changes to Florida's governmental ethics policies including broadening the water management district lobbyist registration provisions to apply to many more special districts, and applying post-employment lobbying restrictions to certain individuals with Enterprise Florida, its divisions, and the Florida Development Finance Corporation. The bill extends the conflicting contractual relationship ban in s. 112.313(7)(a), F.S., to include contracts held by a business entity in which a public officer or public employee holds a controlling interest in a business entity or are an officer, director, or a member who manages such an entity.

The bill also requires local governmental entities to keep their final budgets, and any amendments thereto, on their website for a period of 2 years after adoption.

The bill requires various governmental entities to adopt internal controls to prevent and detect fraud, waste, and abuse.

The bill makes it a first degree misdemeanor to provide prohibited compensation. The bill requires governmental entities to investigate claims of unauthorized compensation and authorizes litigation to enforce the civil penalty and treble damages provisions. Finally, it provides a reward structure and extends Whistle-blower's Protection Act coverage to those reporting prohibited compensation. The bill also makes compensation claims in violation of s. 215.425, F.S., a false

claim against the state. Thus, the state would be authorized to sue to recover damages and civil penalties as provided in ss. 68.082 and 68.083, F.S. (The False Claims Act). Additionally, the Department of Financial Services is authorized to file suit under the False Claims Act.

The bill allows the Governor or Commissioner of Education, or their designees, to report that a local governmental entity has failed to comply with applicable auditing, financial reporting, bond issuance notification, bond verification provisions, or failed to disclose a financial emergency or provide information required during a financial emergency. It increases the Single Audit Act threshold from \$500,000 to \$750,000 and allows the Auditor General to review the threshold periodically and make appropriate recommendations to the Legislature. It makes changes to the financial reporting requirements and independent audit requirements. The bill specifies who can serve as members of the auditor selection committees for local governmental entities. It requires the Florida Virtual School to have an independent financial audit each year.

If an audit report of a school district, Florida College System institution, or other institution or agency under the supervision of the State Board of Education and state universities under the supervision of the Board of Governors includes a recommendation that was in the preceding financial audit report, the entity must indicate its intent regarding corrective action within 60 days after the delivery of the audit report. This response must occur during a regularly scheduled public meeting.

The bill also requires the Florida Clerk of Courts Corporation to notify the Legislature quarterly of any clerk of court not meeting workload requirements and provide corrective action plans within 45 days of the end of the quarter.

The bill requires a water management district monthly financial report to be provided in the format required by the Department of Financial Services.

Finally, the Governor or the Commissioner of Education must notify the Legislative Auditing Committee of financial emergencies instead of notifying the members of the Legislative Auditing Committee.

## **II. Present Situation:**

*For the purposes of this bill analysis, the Present Situation will be addressed in the Effect of Proposed Changes section below.*

## **III. Effect of Proposed Changes:**

### **Statement of Legislative Findings and Intent**

The bill explains that the intent of the bill is to prevent fraud, waste, and abuse, and to safeguard government resources. Specifically, section 31 of the bill provides: “The Legislature finds that a proper and legitimate state purpose is served when internal controls are established to prevent and detect fraud, waste, and abuse and to safeguard and account for government funds and property. Therefore, the Legislature determines and declares that this act fulfills an important state interest.”

## **Governmental Ethics Laws**

### ***Collection Methods for Unpaid Financial Disclosure Fines***

#### **Present Situation:**

Section 112.31455, F.S., authorizes the Florida Commission on Ethics to engage in common-law withholding of wages and to seek garnishment in order to collect unpaid financial disclosure fines. Prior to referring such a fine to the Department of Financial Services, the Florida Commission on Ethics must attempt to determine whether or not the filer is a current public officer or public employee.<sup>1</sup> If the person is currently a public officer or public employee, the Florida Commission on Ethics may notify the Chief Financial Officer or the governing body of the appropriate county, municipality, or special district of the total amount of the fine owed to the Florida Commission on Ethics. After receipt and verification of the notice from the Florida Commission on Ethics, the appropriate governing body is required to begin withholding the lesser of 10 percent or the maximum amount allowed under federal law from any salary-related payment. The withheld payments shall be remitted to the Florida Commission on Ethics until the fine is satisfied. Additionally, the Chief Financial Officer or appropriate governing body may retain an amount from each withheld payment to cover administrative costs incurred under s. 112.31455(1)(b), F.S. In the event that the Florida Commission on Ethics determines that the person is no longer a public officer, or is unable to make such a determination, the Florida Commission on Ethics must wait for 6 months. After that period of time, the Florida Commission on Ethics can seek garnishment pursuant to ch. 77, F.S. Additionally, the Florida Commission on Ethics can refer the unpaid fine to a collection agency.<sup>2</sup> The collection agency can use any legal tool it may possess to collect the unpaid fine. The statute of limitations for an unpaid financial disclosure fine is 20 years.<sup>3</sup>

#### **Effect of Proposed Changes:**

The bill amends s. 112.31455, F.S., in two ways. First, the bill expressly authorizes school districts to withhold public salary-related payments after receiving notice from the commission that an employee has an unpaid fine, including a portion to cover any administrative costs incurred under this section.

Secondly, the bill creates s. 112.31456, F.S., and moves the authority to seek garnishment of wages to that section. None of those provisions are changed from existing law.

### ***Lobbying Registration and Reporting Requirements for Certain Districts***

#### **Present Situation:**

Section 112.3261, F.S., requires a person who seeks to lobby a water management district to register as a lobbyist before he or she begins to lobby. The lobbyist must present a signed statement authorizing him or her to act on the principal's behalf. The statement must also state the principal's main business. Changes to this information must be reported within 15 days. Water management districts may create their own lobbyist registration forms or use a legislative or executive branch lobbyist registration form. Districts are required to be diligent in ascertaining whether lobbyists have properly registered and may not knowingly allow a lobbyist to lobby if

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<sup>1</sup> Section 112.31455(1), F.S.

<sup>2</sup> Section 112.31455(3), F.S.

<sup>3</sup> Section 112.31455(4), F.S.

he or she is not registered. The Florida Commission on Ethics is charged with investigating complaints alleging that a lobbyist has failed to register or provided false information in a report or registration. The Governor has the authority to enforce the Florida Commission on Ethics' findings and recommendation. The water management districts were granted rulemaking authority to adopt rules and establish procedures to govern lobbyist registration, including the adoption of forms and the establishment of a lobbyist registration fee not to exceed \$40.

**Effect of Proposed Changes:**

The bill expands the scope of these lobbyist registration and reporting requirements to apply to hospital districts, a children's services district, expressway authorities, port authorities, or any independent special district with annual revenues of more than \$5 million which exercises ad valorem taxing authority.

***Post Service Lobbying Restrictions***

**Present Situation:**

Section 288.92, F.S., authorizes Enterprise Florida to create and dissolve divisions as necessary to carry out its mission. That section also requires Enterprise Florida to have certain divisions. The law also provides for hiring of officers and members of the divisions of Enterprise Florida and subjects certain officers and members to several standards of conduct in the Code of Ethics for Public Officers and Employees.<sup>4</sup> The law currently does not contain any post-employment or post-service restrictions.

The Florida Development Finance Authority is created in s. 288.9604, F.S. That provision addresses appointment of members of the board of directors and powers of the corporation. It also subjects directors to several standards of conduct in the Code of Ethics for Public Officers and Employees.<sup>5</sup> The law currently does not contain any post-employment or post-service restrictions.

**Effect of Proposed Changes:**

The bill prohibits officers and members of the boards of directors of the divisions of Enterprise Florida, subsidiaries of Enterprise Florida, corporations created to carry out the missions of Enterprise Florida, and corporations with which a division is required by law to contract to carry out its missions, from representing another person or entity for compensation before Enterprise Florida, Inc., divisions of Enterprise Florida, subsidiaries of Enterprise Florida, corporations created to carry out the missions of Enterprise Florida, and corporations with which a division is required by law to contract to carry out its missions, for a period of 2 years after retirement or termination of service to a division.

The bill also prohibits directors of the Florida Development Finance Authority from representing another person or entity for compensation before the corporation, for a period of 2 years after retirement or termination of service.

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<sup>4</sup> Part III, Chapter 112, Florida Statutes.

<sup>5</sup> Part III, Chapter 112, Florida Statutes.

## ***Conflicting Employment and Contractual Relationships***

### **Present Situation:**

Section 112.313(7)(a), F.S., prohibits public officers and employees of an agency from having employment or contractual relationships with a business entity or agency that is subject to the regulation of, or doing business with, his or her agency. That section further prohibits public officers and employees of an agency from having employment or a contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties or that would impede the full and faithful discharge of his or her public duties.

In its annual reports to the Legislature for the last several years, the Commission on Ethics has advised that the law needs to be amended. Specifically, the Commission has advised that individuals were creating a fictitious legal entity then using those fictitious legal entities to engage in contracts that would be prohibited if the people entered them individually.

### **Effective of Proposed Changes:**

The bill provides that if a public officer or public employee holds a controlling interest in a business entity or is an officer, director, or a member who manages such an entity, contractual relationships held by the business entity are deemed to be held by the public officer. As such, if a public officer or public employee holds a controlling interest in a business entity or is an officer, director, or a member who manages such an entity, it would be a violation for the business entity to have a contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties or that would impede the full and faithful discharge of his or her public duties. The public officer or public employee would face penalties ranging from censure and reprimand to removal from office. The penalties also permit a civil fine up to \$10,000 per violation.

## **Online Posting of Governmental Budgets**

### ***Counties, Municipalities, and Special Districts***

#### **Present Situation:**

Counties<sup>6</sup>, municipalities<sup>7</sup>, and special districts<sup>8</sup> are required to post their tentative budgets on their websites 2 days prior to consideration of the budget. The final budget of a county, municipality or special district must be posted on the county's, municipality's, or special district's website within 30 days after adoption. An amendment to a budget must be posted to the county's, municipality's, or special district's website within 5 days of adoption. Current law does not specify how long those items must remain available on the website.

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<sup>6</sup> Section 129.03, F.S.

<sup>7</sup> Section 166.241, F.S.

<sup>8</sup> Section 189.016, F.S.

**Effect of Proposed Changes:**

The bill requires the tentative budget to remain on the county's, municipality's, or special district's website for at least 45 days. The bill also requires that the final adopted budget must remain on the county's, municipality's, or special district's website for at least 2 years. Finally, the bill requires an adopted amendment to the budget to remain on a county's, municipality's, or special district's website for at least 2 years.

***Water Management Districts*****Present Situation:**

Chapter 373 governs Florida's water resource management. That chapter includes provisions authorizing the creation of water management districts and provides those districts with taxing authority. Section 373.536, F.S., governs water management districts' budget process. That section also requires financial audits, 5-year capital improvement plans, and 5-year water resource development work programs. All of these items must be submitted to the Department of Environmental Protection as specified in s. 373.536(6), F.S. The tentative budget is required to be posted on the water management district's website at least 2 days before the budget hearings are conducted. The law requires the final budget to be posted on the district's official website within 30 days of adoption.

**Effect of Proposed Changes:**

The bill requires the tentative budget to remain on the district's website for at least 45 days. The bill requires the final budget to remain on the district's website for at least 2 years.

**Internal Controls to Prevent and Detect Fraud, Waste, and Abuse****Present Situation:**

**State Agencies and the Judicial Branch:** Section 215.86, F.S., provides:

Each state agency and the judicial branch as defined in s. 216.011 shall establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets. Accounting systems and procedures shall be designed to fulfill the requirements of generally accepted accounting principles.

**Local Governmental Entities:** Section 218.33, F.S., requires each local governmental entity to begin its fiscal year on October 1 and end it on September 30. Section 218.33(2), F.S., requires each local governmental entity shall follow uniform accounting practices and procedures as provided by rule of the department to assure the use of proper accounting and fiscal management by such units. Such rules shall include a uniform classification of accounts.

**Charter Schools:** Section 1002.33, F.S., authorizes charter schools as part of Florida's state program of education. In addition to the creation of charter schools, that section also imposes certain requirements on charter schools. In pertinent part, the law requires that the governing body of a charter school is responsible for: ensuring that the charter school has retained a certified public accountant to perform its annual audit; reviewing the audit report; establishing a corrective plan, if necessary; monitoring a financial recovery plan to ensure compliance; and,

participating in governance training approved by the Department of Education. That governance training is required to address government in the sunshine, conflicts of interest, ethics, and financial responsibility.

**School Districts and Florida College System Institutions:** The financial records and accounts of each school district, Florida College System institution, and other institution or agency under the supervision of the State Board of Education shall 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 shall 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 shall incorporate the requirements of law and accounting principles generally accepted in the United States. Such rules shall include a uniform classification of accounts. Each state university shall 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. The Board of Governors' rules shall prescribe the filing deadline for the financial statements. Required financial accounts and reports shall include provisions that are unique to each of the following: K-12 school districts, Florida College System institutions, and state universities, and shall 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.

**Justice Administration Commission:** The Justice Administration Commission is created in s. 43.16, F.S. Among its duties, the Commission is charged with maintaining a central state office for administrative services and assistance when possible, and on behalf of the state attorneys and public defenders of Florida, the capital collateral regional counsel of Florida, the criminal conflict and civil regional counsel, and the Guardian Ad Litem Program. Additionally, the Commission records and submits necessary budgets, vouchers that represent valid claims for reimbursement by the state for authorized expenses, and other things incidental to the proper administrative operation of the office, such as revenue transmittals to the Chief Financial Officer and automated systems plans that were created by the state attorney, public defender, and criminal conflict and civil regional counsel and the Guardian Ad Litem Program.

**Effect of Proposed Changes:**

The bill requires each entity<sup>9</sup> to maintain internal controls designed to: prevent and detect fraud, waste, and abuse; promote and encourage compliance with applicable laws, rules, contracts, grant agreements, and best practices; support economic, efficient, and effective operations; ensure reliability of records and reports; and, safeguard assets.

**Extra Compensation Claims and False Claims Act Changes**

***Extra Compensation Claims***

**Present Situation:**

Section 215.425, F.S., prohibits extra compensation to any officer, agent, employee, or contractor after the service has been rendered or the contract made; nor shall any money be

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<sup>9</sup> This includes each state attorney, each public defender, the criminal conflict and civil regional counsel, the capital collateral regional counsel, and the Guardian Ad Litem program.

appropriated or paid on any claim the subject matter of which has not been provided for by preexisting laws, unless such compensation or claim is allowed by a law enacted by two-thirds of the members elected to each house of the Legislature. However, when adopting salary schedules for a fiscal year, a district school board or community college district board of trustees may apply the schedule for payment of all services rendered subsequent to July 1 of that fiscal year. That section also requires a contract or employment agreement, or renewal of a contract or employment agreement, containing a provision for severance pay to limit severance pay to 20 weeks and to prohibit severance pay when the individual is terminated for misconduct.

**Effect of Proposed Changes:**

The bill defines “public funds” as:

any taxes, tuition, grants, fines, fees, or other charges or any other type of revenue collected by the state or any county, municipality, special district, school district, Florida College System institution, state university, or other separate unit of government created pursuant to law, including any office, department, agency, division, subdivision, political subdivision, board, bureau, commission, authority, or institution of such entities.

The bill clarifies that there can be no violation of s. 215.425, F.S., for payment of a bonus or severance pay that is paid from sources other than public funds. Additionally, if allowed under the Code of Ethics for Public Officers and Employees in Part III, Chapter 112, F.S., the following funds may be used to pay extra compensation:

- Revenues received by state universities through or from faculty practice plans; health services support organizations; hospitals with which state universities are affiliated; direct-support organizations; or federal, auxiliary, or private sources, except for tuition;
- Revenues received by Florida College System institutions through or from faculty practice plans; health services support organizations; direct-support organizations; or federal, auxiliary, or private sources, except for tuition;
- Certain revenues that are received by a hospital licensed under chapter 395 which has entered into a Medicaid Provider Contract and that:
  - Are not derived from the levy of an ad valorem tax;
  - Are not derived from patient services paid through the Medicaid or Medicare program;
  - Are derived from patient services pursuant to contracts with private insurers or private managed care entities; or
  - Are not appropriated by the Legislature or by any county, municipality, special district, school district, Florida College System institution, state university, or other separate unit of government created pursuant to law, including any office, department, agency, division, subdivision, political subdivision, board, bureau, commission, authority, or institution of such entities, except for revenues otherwise authorized to be used pursuant to subparagraphs 2. and 3.
- Revenues or fees received by a seaport or airport from sources other than through the levy of a tax, or funds appropriated by any county or municipality or the Legislature.

CS/CS/CS/SB 1372 requires new contracts or renewal contracts, in which state universities are a party, to contain a requirement that severance pay from public funds may not exceed 20 weeks



and to prohibit severance paid from public funds when the officer, agent, employee, or contractor has been fired for misconduct.

The bill requires a unit of government that has made a prohibited compensation payment to investigate and take all actions necessary to recover the prohibited compensation. If the compensation was provided unintentionally, the unit of government must recover the prohibited compensation through its normal recovery methods. If the prohibited payment was willfully made, the unit of government must recover the payment from either the recipient or the person who authorized the prohibited payment. Willfully providing a prohibited payment would become a first degree misdemeanor under the bill. The bill provides for suspension and removal of officers as follows: An officer who exercises the powers and duties of a state or county office may be suspended by the Governor and removed by the Florida Senate. Any other officer may be suspended and removed by the Governor pursuant to s. 112.51, F.S.

A person who reports the making of a prohibited extra compensation payment is eligible for a reward of at least \$500, or the lesser of 10 percent of the funds recovered or \$10,000 per incident. There is an exception to the reward provision where the recovery of the prohibited compensation is based on disclosures of information relating to allegations or transactions in a criminal, civil, or administrative hearing; a legislative, administrative, inspector general, or other government report; auditor general report, hearing, audit, or investigation; or from the news media. If the person was involved in the authorization, or was convicted for his role in the unauthorized compensation, he or she is not eligible for the reward. Whistle-blowers are granted full protection under the Whistle-blower's Act.<sup>10</sup>

If the unit of government fails to recover the prohibited extra compensation payment within 90 days, a lawsuit is authorized to recover those funds using the legal procedures in ss. 68.082, (governing false claims against the state) and 68.083, F.S., (governing civil actions for false claims). Litigation to recover such funds must be brought in the circuit court of the county in which the unit of local government is located.

### *False Claims Against the State*

#### **Present Situation:**

Section 68.082, F.S., prohibits a person from:

- Knowingly presenting a false or fraudulent claim for payment or approval;
- Knowingly making or using a false record or statement material to a false or fraudulent claim;
- Conspiring to commit a violation of this subsection;
- Having possession, custody, or control of property or money used or to be used by the state and knowingly delivering less than all of that money or property;
- Making or delivering a document certifying receipt of property used or to be used by the state and, intending to defraud the state, making or delivering the receipt without knowing that the information on the receipt is true;
- Knowingly buying or receiving, as a pledge of an obligation or a debt, public property from an officer or employee of the state who may not sell or pledge the property; or

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<sup>10</sup> Section 112.3187, F.S.

- Knowingly making or using a false record or statement material to an obligation to pay or transmit money or property to the state, or knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to the state.

A person who does any of the foregoing is liable to the state for a civil penalty of not less than \$5,500 and not more than \$11,000 and for treble the amount of damages the state sustains.

Section 68.083, F.S., authorizes the Department of Legal Affairs to investigate an allegation of a false claim against the state. If the Department of Legal Affairs determines a violation has occurred, it is authorized to commence a civil action against the violator. Additionally, the Department of Financial Services may bring such a suit if the Department of Legal Affairs has not done so.

**Effect of Proposed Changes:**

The bill makes it a “false claim against the state” for any person to knowingly authorize, approve, or receive payment of prohibited extra compensation in violation of s. 215.425, F.S. A person who authorizes, approves, or receives payment of prohibited extra compensation is subject to the civil penalty ranging from \$5,500 to \$11,000 and for treble the amount of damages that the state sustains as a result of the authorization, approval, or receipt of prohibited compensation.

The bill authorizes the Department of Financial Services to bring a civil action if the action arises from an investigation by that Department concerning a violation of the prohibited extra compensation claim and the Department of Legal Affairs has not filed an action to recover the civil penalty and damages.

**Auditing**

***Joint Legislative Auditing Committee***

**Present Situation:**

Section 11.40, F.S., provides:

Following notification by the Auditor General, the Department of Financial Services, or the Division of Bond Finance of the State Board of Administration of the failure of a local governmental entity, district school board, charter school, or charter technical career center to comply with the applicable provisions within s. 11.45(5)-(7),<sup>11</sup> s. 218.32(1),<sup>12</sup> s. 218.38,<sup>13</sup> or s. 218.503(3),<sup>14</sup> the Legislative Auditing Committee may schedule a hearing to determine if the entity should be subject to further state action.

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<sup>11</sup> Section 11.45, F.S., governs certain audits to be conducted by the Auditor General.

<sup>12</sup> Section 218.32(1), F.S., requires annual financial reports from local governmental entities.

<sup>13</sup> Section 218.38, F.S., requires notice of bond issuance and contains verification requirements.

<sup>14</sup> Section 218.503(3), F.S., requires those entities to disclose a financial emergency and provide certain information concerning a financial emergency.

Section 11.45, F.S., defines the types of audits that may be conducted. That section requires the Auditor General to conduct certain state and local governmental audits and specifies the frequency with which the audits must occur. Section 11.45, F.S., also allows the Auditor General to conduct other audits he or she determines to be appropriate. For purposes of s. 11.45, F.S., the term local governmental entity means “a county agency, municipality, or special district as defined in s. 189.012, but does not include any housing authority established under chapter 421.”

The Auditor General is required to transmit, by July 15, to the President of the Senate, the Speaker of the House of Representatives, and the Department of Financial Services a list of all school districts, charter schools, charter technical career centers, Florida College System institutions, state universities, and water management districts that have failed to comply with the transparency requirements as identified in the audit reports reviewed pursuant to paragraph (b) and those conducted pursuant to subsection (2).

**Effect of Proposed Changes:**

The bill provides that the Governor or his or her designee, or the Commissioner of Education or his or her designee, may also notify the Joint Legislative Auditing Committee that a local governmental entity has failed to comply with applicable auditing, financial reporting, bond issuance notification, bond verification provisions, or failed to disclose a financial emergency or provide information required during a financial emergency.

The bill defines the terms “abuse,” “fraud,” and “waste” in s. 11.45, F.S., as follows:

- “Abuse” means behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. The term includes the misuse of authority or position for personal gain.
- “Fraud” means obtaining something of value through willful misrepresentation, including, but not limited to, the intentional misstatements or omissions of amounts or disclosures in financial statements to deceive users of financial statements, theft of an entity’s assets, bribery, or the use of one’s position for personal enrichment through the deliberate misuse or misapplication of an organization’s resources.
- “Waste” means the act of using or expending resources unreasonably, carelessly, extravagantly, or for no useful purpose.

The bill also redefines the term “Local governmental entity” for purposes of s. 11.45, F.S., to include tourist development councils and county tourism promotion agencies.

The bill exempts water management districts from being subject to audits pursuant to s. 11.45(2)(j), F.S. The bill allows the Auditor General to conduct audits or other engagements of tourist development councils and county tourism promotion agencies. The bill also conforms the Auditor General’s reporting requirement to the President of the Senate, the Speaker of the House of Representatives, and the Department of Financial Services, by removing the obsolete reference to water management districts and replacing it with the phrase “local governmental entity.”

### *Single Audit Act*

#### **Present Situation:**

The Florida Single Audit Act, s. 215.97, F.S., is designed to establish uniform state audit requirements for state financial assistance provided by state agencies to nonstate entities to carry out state projects; promote sound financial management, including effective internal controls, with respect to state financial assistance administered by nonstate entities; promote audit economy and efficiency by relying to the extent possible on already required audits of federal financial assistance provided to nonstate entities; provide for identification of state financial assistance transactions in the state accounting records and recipient organization records; promote improved coordination and cooperation within and between affected state agencies providing state financial assistance and nonstate entities receiving state assistance; and, ensure, to the maximum extent possible, that state agencies monitor, use, and follow-up on audits of state financial assistance provided to nonstate entities. Pursuant to the Single Audit Act, certain entities that exceed the “audit threshold” are subject to a state single audit or a project specific audit. Currently, the “audit threshold” is defined as:

the threshold amount used to determine when a state single audit or project-specific audit of a nonstate entity shall be conducted in accordance with this section. Each nonstate entity that expends a total amount of state financial assistance equal to or in excess of \$500,000 in any fiscal year of such nonstate entity shall be required to have a state single audit, or a project-specific audit, for such fiscal year in accordance with the requirements of this section. Every 2 years the Auditor General, after consulting with the Executive Office of the Governor, the Department of Financial Services, and all state awarding agencies, shall review the threshold amount for requiring audits under this section and may adjust such threshold amount consistent with the purposes of this section. Section 215.97(2)(a), F.S.

#### **Effect of Proposed Changes:**

The bill changes the audit threshold from \$500,000 to \$750,000. Additionally, the bill changes the requirement that the Auditor General review the threshold amount for requiring audits from every 2 years to “periodically.” The term “periodically” is not defined in the bill. Finally, the bill authorizes the Auditor General to recommend to the Legislature a statutory change to revise the threshold amount in the annual report submitted pursuant to s. 11.45(7)(f), F.S.

### *Local Government Entity Annual Financial Reports*

#### **Present Situation:**

Section 218.32, F.S., requires certain local governmental entities to submit an annual financial report for the previous fiscal year. The annual financial report is required to be signed by the chair of the governing body and the chief financial officer of the local governmental entity. That section also specifies what information is required to be in the report.

Additionally, the Department of Financial Services is required to file a verified report with the Governor, the Legislature, the Auditor General, and the Special District Accountability Program of the Department of Economic Opportunity showing the revenues, both locally derived and derived from intergovernmental transfers, and the expenditures of each local governmental

entity, regional planning council, local government finance commission, and municipal power corporation that is required to submit an annual financial report.<sup>15</sup>

**Effect of Proposed Changes:**

The bill requires an independent certified public accountant completing an audit of a unit of local government pursuant to s. 218.39, F.S., to report, as part of the audit, whether or not the entity's annual financial report is in agreement with the audit report. The accountant's audit report must be supported by the same level of detail required for the annual financial report. If the reports are not in agreement, the bill requires the audit to specify the differences that exist between the annual financial report and the audit report.

The bill also provides that, in preparing the verified report, the Department of Financial Services may request additional information from the local governmental entity. Any additional information requested must be provided within 45 days of the request. If the local governmental entity does not comply with the request, the Department of Financial Services must notify the Legislative Auditing Committee, which may take action pursuant to s. 11.40(2), F.S.

***Annual Financial Audit Reports***

**Present Situation:**

If certain types of governmental entities are not notified by the first day of the fiscal year that they will be audited by the Auditor General, those entities must have an annual financial audit performed by an independent certified public accountant completed within 9 months.<sup>16</sup> Section 218.39, F.S., lays out the minimum required information for the independent audits and provides for discussion between the governing body and the independent certified public accountant regarding certain specified conditions. If corrective action is required and has not been taken, the Legislative Auditing Committee can request a statement explaining why the corrective action has not been taken and provides for corrective steps including actions pursuant to s. 11.40(2), F.S.

**Effect of Proposed Changes:**

The bill provides that if the audit report contains a recommendation from the preceding financial audit report, the governing body, within 60 days, must indicate its intent regarding corrective action, the corrective action to be taken, and when the corrective action will occur. If the governing body does not intend to take any corrective action, it shall explain why such action will not be taken at the regularly scheduled public meeting.

***Auditor Selection Procedures***

**Present Situation:**

Section 218.391, F.S., lays out the process that specified governmental entities<sup>17</sup> must follow in selecting its independent certified public accountant to act as an auditor. Noncharter counties are required to create a committee consisting of each of its elected county constitutional officers and one member of the board of county commissioners or their designee. Those entities must create

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<sup>15</sup> Section 218.32(2), F.S.

<sup>16</sup> Section 218.39, F.S.

<sup>17</sup> The entities are: the governing body of a charter county, municipality, special district, district school board, charter school, or charter technical career center.

an audit committee which must make a request for proposals. The law lays out what must be considered in selecting the firm and discusses negotiating for compensation.

**Effect of Proposed Changes:**

The bill requires all counties to have an auditor selection committee consisting of each of its officers elected pursuant to the county charter or Florida Constitution. The bill requires municipalities, special districts, district school boards, charter schools, or charter technical career centers to create an audit committee with at least three members, one of which must be a member of the governing body of the entity. That member will serve as the committee's chair. Members of county, municipal, or special district audit committees may not exercise financial management responsibilities for the county, municipality, or special district. The bill provides that the contract period may not exceed 5 years. The bill creates a 2-year period of ineligibility for a firm to get a new contract after its 5-year contract has expired.

The audit report submitted pursuant to s. 218.39, F.S., must include an affidavit executed by the chair of the audit committee affirming that the committee complied with the auditor selection requirements. If the Auditor General determines that an entity failed to comply with the requirements in selecting an auditor, the entity shall select a replacement auditor to conduct audits for the remaining subsequent fiscal year(s) remaining in the contract.

***The Florida Virtual School***

**Present Situation:**

The Florida Virtual School is created to develop and deliver online and distance learning. The Commissioner of Education is charged with monitoring the Florida Virtual School. In pertinent part, the law requires the board of trustees to submit an annual report to the Governor, the Legislature, the Commissioner of Education, and the State Board of Education. The report is required to address: operations and accomplishments of the Florida Virtual School within the state and those occurring outside the state as Florida Virtual School Global; marketing and operational plan for the Florida Virtual School and Florida Virtual School Global, including recommendations regarding methods for improving the delivery of education through the Internet and other distance learning technology; assets and liabilities of the Florida Virtual School and Florida Virtual School Global at the end of the fiscal year; a copy of an annual financial audit of the accounts and records of the Florida Virtual School and Florida Virtual School Global, conducted by an independent certified public accountant and performed in accordance with rules adopted by the Auditor General; recommendations regarding the unit cost of providing services to students through the Florida Virtual School and Florida Virtual School Global; and, recommendations regarding an accountability mechanism to assess the effectiveness of the services provided by the Florida Virtual School and Florida Virtual School Global.<sup>18</sup>

The Auditor General is required to conduct an operational audit of the Florida Virtual School, including Florida Virtual School Global. The scope of the audit must include, but not be limited to, the administration of responsibilities relating to personnel; procurement and contracting; revenue production; school funds, including internal funds; student enrollment records; franchise agreements; information technology utilization, assets, and security; performance measures and

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<sup>18</sup> Section 1002.37(6), F.S.

standards; and accountability. The final report on the audit shall be submitted to the President of the Senate and the Speaker of the House of Representatives no later than January 31, 2014.

**Effect of Proposed Changes:**

The bill eliminates the requirement that the Auditor General conduct an operation audit and report to the President of the Senate and the Speaker of the House of Representatives by January 31, 2014. That provision is replaced with requiring the Florida Virtual School to have an annual financial audit of its accounts and records completed by an independent auditor who is a licensed certified public accountant. The independent auditor must conduct the audit in accordance with the rules adopted by the Auditor General governing such audits. The audit report is required to include a written statement of the board of trustees describing corrective action to be taken in response to each of the independent auditor's recommendations. Upon completion of the audits, the independent auditor is required to submit an audit report to the board of trustees and the Auditor General no later than 9 months after the end of the prior fiscal year. The bill also makes conforming changes to the annual report provided to the Governor, the Legislature, the Commissioner of Education, and the State Board of Education, by requiring a copy of the audit report be submitted with the annual statement. That audit report is to provide a written statement of the board of trustees describing corrective action to be taken in response to each finding of the independent auditor's recommendations included in the audit report.

***Required Audits of Certain Educational Institutions***

**Present Situation:**

School districts, Florida College System institutions, and other institutions and agencies under the supervision of the State Board of Education and state universities under the supervision of the Board of Governors are subject to the audit provisions of ss. 11.45 and 218.39, F.S. If an audit contains a significant finding, the district school board, the Florida College System institution board of trustees, or the university board of trustees shall conduct an audit overview during a public meeting.

**Effect of Proposed Changes:**

If any audit report includes a recommendation that was previously included in the preceding financial audit report, the district school board, the Florida College System institution board of trustees, or the university board of trustees, must indicate its intent regarding corrective action, the corrective action to be taken, and when the corrective action will occur within 60 days after the delivery of the audit report. This response must occur during a regularly scheduled public meeting. If the district school board, Florida College System institution board of trustees, or university board of trustees does not intend to take corrective action, it shall explain why such action will not be taken at the regularly scheduled public meeting.

**Other Provisions**

***Florida Clerk of Courts Corporation***

**Present Situation:**

Currently, s. 28.35, F.S., requires the Florida Clerk of Courts Corporation to develop and certify a uniform system of workload measures and applicable workload standards for court-related functions as developed by the corporation and clerk workload performance in meeting the

workload performance standards. These workload measures and workload performance standards must be designed to facilitate an objective determination of the performance of each clerk in accordance with minimum standards for fiscal management, operational efficiency, and effective collection of fines, fees, service charges, and court costs. The corporation shall develop the workload measures and workload performance standards in consultation with the Legislature. When the corporation finds a clerk has not met the workload performance standards, the corporation shall identify the nature of each deficiency and any corrective action recommended and taken by the affected clerk of the court. The corporation shall notify the Legislature of any clerk not meeting workload performance standards and provide a copy of any corrective action plans.

**Effect of Proposed Changes:**

The bill requires the Florida Clerk of Courts Corporation to notify the Legislature of any clerk not meeting the workload performance standards and provide a copy of any corrective action plans within 45 days after the end of each quarter. For purposes of s. 28.35, F.S., the quarters end on the last day of March, June, September, and December of each year.

***Transparency in Government Spending***

**Present Situation:**

The Transparency Florida Act, located in s. 215.985, F.S., requires the Governor, in consultation with the appropriations committees of the House and Senate, to maintain a central website providing access to all other websites required to be linked under the Act. That law requires certain budget information to be readily available online, certain contract information, and minimum functionality standards. In pertinent part, s. 215.985(11), F.S., requires: “Each water management district shall provide a monthly financial statement to its governing board and make such statement available for public access on its website.”

**Effect of Proposed Changes:**

The bill requires the monthly financial statement to be in the form and manner prescribed by the Department of Financial Services to the district’s governing board and make such monthly financial statement available to the public on its website.

***Financial Emergencies***

**Present Situation:**

Local governmental entities, charter schools, charter technical career centers, and district school boards are subject to review and oversight by the Governor, the charter school sponsor, the charter technical career center sponsor, or the Commissioner of Education, as appropriate, under certain circumstances.<sup>19</sup> If a financial emergency occurs, the Governor or the Commissioner of Education must contact the entity to determine what steps have been taken to rectify, resolve, or prevent the financial emergency. Any information requested must be provided within 45 days. If the local governmental entity or the district school board does not comply with the request, the Governor or Commissioner of Education must notify the *members* of the Legislative Auditing Committee who may take action pursuant to s. 11.40, F.S. The Governor or the Commissioner of Education must then determine whether the entity needs state assistance. If so, the entity is

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<sup>19</sup> Section 218.503(1), F.S.



considered to be in a state of financial emergency. The Governor or the Commissioner of Education then has the authority to take steps to resolve the financial emergency.<sup>20</sup>

**Effect of Proposed Changes:**

The bill provides that the Governor, or his or her designee, or the Commissioner of Education, or his or her designee, must notify the Legislative Auditing Committee instead of notifying the members of the Legislative Auditing Committee.

**IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

The county/municipality mandates provision of Art. VII, s. 18 of the State Constitution may apply because the bill requires county and municipal governments to establish and maintain specified internal controls. An exemption may apply if the bill results in an insignificant fiscal impact to county or municipal governments. An exemption also may apply because similarly situated persons are all required to comply and the bill articulates a threshold finding of serving an important state interest.

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:

The bill requires members of the public to register as a lobbyist when lobbying a specified unit of local government. Current law authorizes a fee for each registration, which may not exceed \$40.

C. Government Sector Impact:

The bill requires state agencies, the court system, court-related entities, local governments, district school boards, charter schools, and state colleges and universities to establish specified internal controls. Such requirement may require additional time and expense to create the internal controls.

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<sup>20</sup> Section 218.503(3), F.S.

The bill amends provisions related to the prohibition against extra compensation. It requires investigations of allegations and repayment of any prohibited compensation. It also requires the payment of rewards to individuals who report violations. The changes may result in the recovery of prohibited payments, but it also will have an associated increased workload cost for investigations and the payment of rewards.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Statutes Affected:**

This bill creates section 112.31456 of the Florida Statutes.

This bill substantially amends the following sections of the Florida Statutes: 11.40, 11.45, 28.35, 43.16, 112.313, 112.31455, 112.3261, 129.03, 129.06, 166.241, 189.016, 215.425, 215.86, 215.97, 215.985, 218.32, 218.33, 218.39, 218.391, 288.92, 288.9604, 373.536, 1002.33, 1002.37, 1010.01, 1010.30, 68.082, 68.083, and 218.503.

**IX. Additional Information:**

**A. Committee Substitute – Statement of Substantial Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

**CS/CS/CS by Rules on April 20, 2015:**

Provides that if a public officer or public employee holds a controlling interest in a business entity or is an officer, director, or a member who manages such an entity, contractual relationships held by the business entity are deemed to be held by the public officer; thereby violating the conflicting contractual relationship prohibition in s. 112.313(7)(a), F.S.

If allowed under the Code of Ethics for Public Officers and Employees in Part III, Chapter 112, F.S., the following funds may be used to pay extra compensation:

- Revenues received by state universities through or from faculty practice plans; health services support organizations; hospitals with which state universities are affiliated; direct-support organizations; or federal, auxiliary, or private sources, except for tuition;
- Revenues received by Florida College System institutions through or from faculty practice plans; health services support organizations; direct-support organizations; or federal, auxiliary, or private sources, except for tuition;
- Certain revenues that are received by a hospital licensed under chapter 395 which has entered into a Medicaid Provider Contract; and
- Revenues or fees received by a seaport or airport from sources other than through the levy of a tax, or funds appropriated by any county or municipality or the Legislature.

Requires new contracts or renewal contracts in which state universities are a party to contain a requirement that severance pay from public funds may not exceed 20 weeks and to prohibit severance paid from public funds when the officer, agent, employee, or contractor has been fired for misconduct.

**CS/CS by Community Affairs on March 31, 2015:**

Clarifies that the definition of “abuse” includes the misuse of authority or position for personal gain.

Reverts to the existing law regarding the withholding of a salary payment related to a public employee’s unpaid fine that resulted from an improper financial disclosure. Requires a school district that has received notification from the Florida Commission on Ethics that a current public employee owes such an unpaid fine to withhold the lesser of 10 percent or the amount allowed under federal law from any salary-related payment. The amended bill also authorizes the school district to withhold additional funds to offset the administrative costs of implementing these withholdings.

**CS by Ethics and Elections on March 24, 2015:**

- Allows the Auditor General to conduct audits or other engagements of tourist development councils and county tourism promotion agencies;
- Requires a governing body to withhold 25 percent of the amount of the fine from the filer’s next public salary-related payment, plus any administrative costs incurred;
- Requires withholding the same percentage of each successive public salary-related payment until the fine and administrative costs are paid in full;
- Defines “public funds” for purposes of the prohibited compensation statute in s. 215.425, F.S.;
- Clarifies that it is not prohibited compensation to pay a bonus or severance pay from sources other than public funds;
- Provides that state or county officers making or receiving prohibited compensation may be suspended by the Governor and removed by the Florida Senate;
- Allows the Governor to suspend and remove any other officer who makes or receives prohibited compensation pursuant to s. 112.51, F.S.;
- Requires the accountant’s audit to be supported by the same level of detail required for the annual financial report;
- Provides that the contract period may not exceed 5 years;
- Creates a 2-year period of ineligibility for a firm to get a new contract after its 5-year contract has expired;
- Requires the audit report submitted pursuant to s. 218.39, F.S., to include an affidavit executed by the chair of the audit committee affirming that the committee complied with the auditor selection requirements;
- Provides that entities that fail to comply with the requirements in selecting an auditor must replace the auditor for the remaining term of the contract;
- Extends applicability of the 2 year post-service lobbying restriction to prohibit representation before a division of Enterprise Florida, subsidiary of Enterprise Florida, or the board of directors of corporations created to carry out the missions of

Enterprise Florida, Inc., or with which a division is required by law to contract to carry out its missions;

- Requires Florida Virtual Schools to include a written statement describing corrective action to be taken in response to each of the independent auditor's recommendations;
- Requires Florida Virtual Schools to submit its audit report in its annual report to the Governor, the Legislature, the Commissioner of Education, and the State Board of Education; and
- Provides new effective date of October 1, 2015.

**B. Amendments:**

None.