

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/CS/HB 1019 Financial Reporting

SPONSOR(S): Government Accountability Committee; Local, Federal & Veterans Affairs Subcommittee; La Rosa

TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Local, Federal & Veterans Affairs Subcommittee	12 Y, 0 N, As CS	Darden	Miller
2) Appropriations Committee	20 Y, 7 N	Keith	Leznoff
3) Government Accountability Committee	17 Y, 4 N, As CS	Darden	Williamson

SUMMARY ANALYSIS

Counties, municipalities, water management districts, and school districts are required to post their annual budget to their websites, but current law does not set a required amount of time for which the information must be available.

Local government entities are required to file annual financial reports within nine months of the conclusion of the fiscal year. Counties, school districts, municipalities with revenues or expenditures of more than \$250,000 per year, and special districts with revenues or expenditures of more than \$100,000 per year are required to conduct an annual audit. Municipalities with revenues or expenditures between \$100,000 and \$250,000 and special districts with revenues or expenditures between \$50,000 and \$100,000 are required to conduct audits on a triennial basis.

The Legislative Auditing Committee may conduct a hearing upon notification by the Auditor General, the Department of Financial Services, or the Division of Bond Finance of the State Board of Administration that a local government entity has failed to file required financial and audit reports.

The bill requires counties, municipalities, special districts, water management districts, and school districts to:

- Post annual budgets to their respective websites for two years;
- Post tentative budgets to their websites for 45 days;
- Provide an electronic copy of their budgets to the Office of Economic and Demographic Research (EDR), on forms prescribed by the EDR; and
- Provide a copy of their budgets and a certification of timely filing to the clerk of the court.

The bill provides that if a local government entity or school district fails to file required reports with the clerk of the court, the clerk must notify the appropriate fiscal officer to withhold salary payments from the head of the local government entity or the superintendent of the school district until the reports are filed.

The bill requires all municipalities and special districts to conduct an annual audit.

The bill requires the Legislative Auditing Committee to conduct a hearing upon receiving notification from the Auditor General, the Department of Financial Services, the Division of Bond Finance of the State Board of Administration, the Governor, or the Commissioner of Education that a local government entity has failed to file required reports.

The bill has an indeterminate, but likely insignificant negative fiscal impact to expenditures and staff time of the EDR. The impact to local governments is unknown. See Fiscal Comments.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation

Legislative Auditing Committee

The Legislative Auditing Committee may conduct an investigation into any matter within the scope of audit, review, or examination by the Auditor General or the Office of Program Policy Analysis and Government Accountability.¹ Following notification by the Auditor General, the Department of Financial Services (DFS), 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 applicable auditing and financial requirements, the Legislative Auditing Committee may schedule a hearing to determine whether the entity should be subject to further state action.²

Local Government Budgets

Counties, municipalities, special districts, water management districts, and school districts are required to post their tentative and final budgets on their websites.³ Local government entities must post their tentative budget to their website at least two days before the budget meeting, the final budget within 30 days of adoption, and amendments to the budget within five days of adoption.⁴ Special districts are required to maintain the tentative budget on their website for at least 45 days and the final adopted budget as well as any amendment on their website for at least two years.⁵ No other type of local government entity has a minimum period for which their tentative budget, final budget, and budget amendments must remain available on their website.⁶

Annual Financial Reports

Local government entities that are required to provide an audit under s. 218.39, F.S., must submit an audit report and annual financial report to the DFS within 45 days of the completion of the audit report, but no later than nine months after the end of the fiscal year.⁷ Local government entities that are not required to submit an audit report must submit an annual financial report to the DFS no later than nine months after the end of the fiscal year.⁸ The annual financial report must be signed by the chair of the local governing body and the chief financial officer for the entity.⁹ The local government's website must contain a link to the DFS website to view the entity's annual financial report.¹⁰

If the DFS does not receive an annual financial report from a local government entity before the deadline, it must notify the Legislative Auditing Committee and the Special District Accountability

¹ Section 11.40(1), F.S.

² Section 11.40(2), F.S. Auditing and reporting requirements under this subsection include audits conducted by the Auditor General pursuant to s. 11.45, F.S., the filing of annual financial reports by local government entities pursuant to s. 218.32(1), F.S., providing notice of bond issuance and verification requirements pursuant to s. 218.38., F.S., and provisions requiring the disclosure of a financial emergency under s. 218.503(3), F.S. For purposes of s. 11.45, F.S., the term "local governmental entity" means a county agency, municipality, or special district, but does not include any housing authority established under ch. 421, F.S.

³ Sections 129.03(3)(c), 166.241(3), 189.016(4), 373.536(5)-(6), 1011.03(4)-(5), F.S. (requirements for counties, municipalities, special districts, water management districts, and school districts, respectively).

⁴ *Id.*, but see s. 373.536(6), F.S. (no requirement for water management districts to post budget amendments to their website).

⁵ Section 189.016, F.S.

⁶ See ss. 129.03(3)(c), 166.241(3), 373.536(5)-(6), 1011.03(4)-(5), F.S.

⁷ Section 218.32(1)(d), F.S. A "local government entity" includes any county, municipality, or special district. S. 218.31(1), F.S.

⁸ Section 218.32(1)(e), F.S.

⁹ Section 218.32(1)(a), F.S.

¹⁰ Section 218.32(1)(g), F.S.

Program of the Department of Economic Opportunity of the entity's failure to comply with reporting requirements.¹¹

Annual Audit Reports

Counties, school districts, municipalities with revenues or expenditures of more than \$250,000 per year, special districts with revenues or expenditures of more than \$100,000 per year, school districts, charter schools, and charter technical career centers are required to conduct an annual audit, unless informed by the first day of the fiscal year that a financial audit by the Auditor General will be performed for that fiscal year.¹² Municipalities with revenues or expenditures between \$100,000 and \$250,000 and special districts with revenues or expenditures between \$50,000 and \$100,000 are required to conduct audits on a triennial basis.¹³

The auditor meets with the chair of the entity to discuss comments that will be included in the report and informs the entity's governing body if deteriorating financial conditions exist that may cause a financial emergency in the absence of corrective actions being taken or a deficit exists for which there are insufficient funds to cover.¹⁴ The officer's explanation or rebuttal of the auditor's findings, including corrective actions to be taken, must be filed with entity's governing body within 30 days after the delivery of the auditor's findings.¹⁵

The audit report must be filed with the Auditor General within 45 days of delivery to the governing body of the audited entity, but no later than nine months after the end of the audited entity's fiscal year.¹⁶ The audit report must include a written statement describing corrective actions to be taken in response to each of the auditor's recommendations included in the report. If an audited entity fails to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports, the Auditor General must notify the Legislative Auditing Committee.¹⁷

Effect of Proposed Changes

The bill requires each county, municipality, special district, water management district, and school district to post their final budgets on their respective websites and specifies that the budget must remain on the website for two years. The bill require each county and municipality to post their tentative budgets on their respective websites and specifies that the tentative budget must remain on the website for 45 days.

The bill also requires the government entity to submit an electronic copy of the budget to the Office of Economic and Demographic Research (EDR) within 30 days after the budget is adopted. The bill allows for an extension of the deadline for up to 90 days if the Governor declares a state of emergency within 30 days of the submission deadline. The bill requires the EDR to develop forms by July 15, 2018 for the purpose of submitting budget data. The forms must provide "broad, but meaningful" categories for organizing expenditures. By December 1, 2018, the EDR is required to submit a report to the President of the Senate and Speaker of the House of Representatives that:

- identifies a structure to allow the public to make simple, direct comparisons between governmental entities of the same type;
- enables the public to rank entities of the same type based on submitted budget information; and
- provides recommendations to provide this information in a cost-effective manner.

¹¹ Section 218.32(1)(f), F.S.

¹² Section 218.39(1), F.S.

¹³ Section 218.39(1)(g)-(h), F.S. In fiscal year 2016, 17 municipalities reported revenue or expenditures of less than \$250,000. *See* Local Government Financial Reporting, Department of Financial Services, <https://apps.fldfs.com/localgov/reports/default.aspx> (last visited Feb. 22, 2018).

¹⁴ Section 218.39(5), F.S.

¹⁵ Section 218.39(6), F.S.

¹⁶ Section 218.39(7), F.S.

¹⁷ Section 218.39(8), F.S.

The government entity must also submit to the clerk of the court a copy of the information that was submitted to the EDR, a copy of the final budget that was posted on the county's website, and a statement certifying both of these items were submitted and posted in a timely manner.

The bill requires each school district required to file an annual financial report to submit an electronic copy to the Department of Education certifying the report was timely filed to maintain eligibility for the Florida Education Finance Program.

Each local government entity must submit an electronic copy of the annual financial report and a statement certifying the document was timely filed with the DFS to the clerk of the court. Starting in fiscal year 2018-2019, the bill provides that if a local government entity or school district fails to submit information to the clerk of the court, the clerk must notify the appropriate fiscal officer of the local government or school district to suspend salary payments to the head of the local government entity or superintendent of the school district until such time as the information is provided to the clerk.

The bill requires the DFS to post a copy of each local government entity's annual financial report to its website within 12 months of the conclusion of the fiscal year for which the report was compiled.

The bill requires all municipalities and special districts to complete an annual financial audit starting in fiscal year 2018-2019.

The bill requires the Legislative Auditing Committee, upon notification by the Auditor General, the DFS, or the Division of Bond Finance of the State Board of Administration, to schedule a hearing to determine if a local government entity or school district should be subject to further state action. The bill also adds the Governor and the Commissioner of Education to the list of reporting entities.

B. SECTION DIRECTORY:

Section 1: Amends s. 11.40, F.S., requiring the Legislative Auditing Committee to hold hearings following notification a local government entity has failed to file required reports.

Section 2: Amends s. 129.03, F.S., requiring each county to post final budgets to their website and report financial data to the EDR.

Section 3: Amends s. 165.0615, F.S., conforming cross-references.

Section 4: Amends s. 166.241, F.S., requiring each municipality to post final budgets to their website and report financial data to the EDR.

Section 5: Amends s. 189.016, F.S., requiring each special district to post final budgets to their website and report financial data to the EDR.

Section 6: Amends s. 189.066, F.S., conforming cross-references.

Section 7: Amends s. 189.074, F.S., conforming cross-references.

Section 8: Amends s. 218.32, F.S., concerning the reporting of annual financial reports by local government entities.

Section 9: Amends s. 218.39, F.S., requiring all local government entities to file an annual financial audit report.

Section 10: Amends s. 373.536, F.S., requiring each water management district to post final budgets to its website and report financial data to the EDR.

- Section 11: Amends s. 1011.03, F.S., requiring each school district to post final budgets to its website and report financial data to the EDR.
- Section 12: Amends s. 1011.60, F.S., requiring school districts to submit to the clerk of court a certification that the district's annual financial report was timely filed.
- Section 13: Requires EDR to prepare forms for use by counties, municipalities, special districts, water management districts, and school districts when submitting information regarding their final budgets to the office.
- Section 14: Provides an effective date of July 1, 2018.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

The bill has an indeterminate, but likely insignificant negative fiscal impact to expenditures and staff time of the Office of Economic and Demographic Research (EDR). The bill requires that the EDR, by July 15, 2018, develop forms for the submittal of budget data from certain specified entities. Additionally, the bill requires the EDR to compile and submit a report to the President of the Senate and Speaker of the House of Representatives by December 1, 2018. In the report, the EDR is required to identify a structure to allow the public to make simple, direct comparisons between governmental entities of the same type; enable the public to rank entities of the same type based on submitted budget data; and, offer recommendations to provide this information in a cost-effective manner. It is anticipated that the EDR will be able to absorb these additional impacts within existing resources.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

See Fiscal Comments.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The bill requires annual audit reports, for specified entities of the bill, to be provided to the Auditor General. This would require those entities, who under current law report triennially, to perform annual audits. The impact of this is unknown at this time.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The county/municipality mandates provision of Art. VII, s. 18 of the Florida Constitution may apply because this bill requires all municipalities to complete an annual financial audit. Currently, municipalities with revenues or expenditures between \$100,000 and \$250,000 are required to conduct financial audits every three years. However, an exemption may apply if the fiscal impact of the bill is insignificant.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The bill does not provide rulemaking authority or require executive branch rulemaking.

C. DRAFTING ISSUES OR OTHER COMMENTS:

The bill requires the clerk of the court to notify the appropriate local fiscal officer to suspend future salary payments to the head of a local government entity who fails to submit required documents. The term "head" of a local government entity may be ambiguous in certain circumstances (e.g. mayor or city commission for a municipality).

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On January 24, 2018, the Local, Federal & Veterans Affairs Subcommittee adopted a strike-all amendment and reported the bill favorably as a committee substitute. The amendment added the Governor and the Commissioner of Education to the list of reporting entities who can trigger review of a local government entity by the Legislative Auditing Committee. The amendment also made technical corrections to the bill.

On February 22, 2018, the Government Accountability Committee adopted a strike-all amendment and reported the bill favorably as a committee substitute. The amendment removed provisions decreasing the filing period for local government financial reports and financial audits from nine months to six months. The amendment required local government entities to post their final budget on the websites and maintain the final budget on such website for two years, and to post tentative budgets on their websites and maintain those on such website for 45 days. The amendment also made technical corrections to the bill.

This analysis is drafted to the committee substitute as passed by the Government Accountability Committee .