

Broward County, Florida

Reports in Accordance with Government
Auditing Standards and Chapter 10.550,
Rules of the Auditor General of the State of Florida
Year Ended September 30, 2017

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards**

RSM US LLP

To the Board of County Commissioners
Broward County, Florida
Fort Lauderdale, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Broward County, Florida (the County), as of and for the year ended September 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2018. Our report includes a reference to other auditors who audited the financial statements of (1) Clerk of Circuit and County Courts (a discretely presented component unit), (2) Broward County Housing Finance Authority (a discretely presented component unit), (3) Broward County Supervisor of Elections (reported as part of the County's general fund) and (4) Broward County Property Appraiser (reported as part of the County's general fund). This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control related to the Broward County Aviation Department Noise Mitigation Program which is presented as item 2017-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County's Response to Finding

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Fort Lauderdale, Florida
March 23, 2018

2017 – 001 Improper Capitalization of Noise Mitigation Costs

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 34, paragraph 19, as amended by GASB statement No. 51 defines a capital asset as a tangible or intangible asset acquired for use in operations that will benefit more than a single fiscal period. Also per paragraph 18 of GASB Statement No. 34 ancillary charges include costs that are directly attributable to asset acquisition such as freight and transportation charges, site preparation costs and professional fees. Further, GASB Statement No. 51 states that intangible assets are assets that lack physical substance, are nonfinancial in nature, and have an initial life extending beyond a single reporting period. Intangible assets should only be recognized if they are identifiable (i.e., separable and/or arising from contractual or other legal rights).

Condition: The Noise Mitigation Program is a Federal Aviation Administration (FAA) approved enabling project of the South Runway Extension project run by the Broward County Aviation Department (BCAD). The program addresses noise impacts from the expanded runway and is made up of two components; the Voluntary Residential Sound Insulation Program (RSI) and the Sales Assistance/Conveyance and Release Program (SA/CAR). In prior years, all costs associated with the program were being capitalized as incurred. However, upon further review and evaluation in the current year, it was determined that the costs associated with the RSI program did not meet the definition of a County owned capital asset or intangible asset as described above in the criteria. The costs for the RSI program resulted in improvements to assets that are not under the ownership or control of BCAD or the County and as such they should have been expensed as incurred as period costs and not capitalized. The result of removing these costs was a reduction in capital assets and net position of approximately \$52 million as of October 1, 2016, for the Aviation Department major enterprise fund and business type activities opinion unit which was recorded as a prior period adjustment.

Cause: Given the nature of this program, there was a lack of clarity around what the County was receiving and, as a result, the amounts were capitalized as part of the runway expansion. However, they do not meet the definition of an intangible asset or an ancillary cost of the runway project.

Effect: An overstatement of capital assets and net position of \$52 million and a correlating understatement of non-operating expenses in the Aviation major enterprise fund and business type activities opinion unit.

Recommendation: We recommended and management has processed the prior period adjustment to correct the accounting records and financial statements for these items. We suggest that for future projects, management establish a more robust process for consideration of unique transactions which includes the documentation of the facts, relevant accounting guidance, alternatives considered and final conclusion. The accounting memo would be approved by Department and County personnel and reviewed with their external auditors.

(Continued)

Views of responsible officials and planned corrective actions: The Noise Mitigation Program is a complex program and was an absolute condition for the FAA to approve and fund the South Runway Expansion Project. The program was also required per the Interlocal Agreement with the City of Dania Beach and to be compliant with the Environmental Impact Statement. There is no specific guidance from GASB or airport organizations regarding the accounting treatment for the program and our research indicated a disparate treatment among airports. The majority of US airports capitalize their noise mitigation program costs, including the sound insulation costs, as BCAD had done in prior audited financial statements. However, given Fort Lauderdale – Hollywood International Airport's (FLL) specific circumstances, including the RSI agreements with the homeowners that do not require an aviation easement, we concur that the costs for the RSI program should be expensed as incurred as non-operating expenses and the costs for the SA/CAR program to remain capitalized as intangible assets.

We will continue to monitor all costs to ensure they are recorded correctly.



**Independent Accountant's Report on Compliance
With Section 218.415, Florida Statutes**

RSM US LLP

To the Board of County Commissioners
Broward County, Florida

We have examined Broward County, Florida's (the County) compliance with *Section 218.415, Florida Statutes, Local Government Investment Policies* for the year ended September 30, 2017. Management is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the County complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the County complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with the specified requirements.

In our opinion, the County complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

This report is intended solely for the information and use of the Florida Auditor General, the Honorable Mayor, Board of County Commissioners, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Fort Lauderdale, Florida
March 23, 2018

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**Independent Accountant's Report on Compliance
With Section 365.172 and 365.173, Florida Statutes**

RSM US LLP

Members of the Board of County Commissioners
Broward County, Florida

We have examined Broward County's (the "County") compliance with *Sections 365.172 and 365.173, Florida Statutes, Emergency Communications Number E911 System Fund* during the year ended September 30, 2017. Management is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the County complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the County complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements.

In our opinion, the County complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

This report is intended solely for the information and use of the Florida Auditor General, the Honorable Mayor, Board of County Commissioners, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Ft. Lauderdale, Florida
March 23, 2018

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**Management Letter in Accordance With the
Rules of the Auditor General of the State of Florida**

RSM US LLP

To the Board of County Commissioners
Broward County, Florida
Fort Lauderdale, Florida

Report on the Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Broward County, Florida (the County) as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated March 23, 2018. Our report includes a reference to other auditors who audited the financial statements of (1) Clerk of Circuit and County Courts (a discretely presented component unit), (2) Broward County Housing Finance Authority (a discretely presented component unit), (3) Broward County Supervisor of Elections (reported as part of the County's general fund) and (4) Broward County Property Appraiser (reported as part of the County's general fund). This report does not include the findings and recommendations of the other auditors' that are reported on separately by those auditors.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*; and Independent Accountant's Reports on an Examination Conducted in Accordance With *AICPA Professional Standards, AT-C Section 315*, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information is disclosed in Note 1 to the County's financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a, and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the County has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the County did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the County. It is management's responsibility to monitor the County's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. This procedure does not include any matters that were reported on by other auditors as identified above on page 7. The recommendations to improve the County's financial management have been addressed in current year's recommendations to improve financial management in Appendix A to this report.

The County's responses to the recommendations to improve the County's financial management have been addressed in current year's recommendations to improve financial management in Appendix A to this report. We did not audit the County's response, and accordingly, we express no opinion on it.

Annual Financial Report

Section 10.554(1)(i)5.b, and 10.556(7) Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the County for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of This Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Fort Lauderdale, Florida
March 23, 2018

No.	Current Year's Observations and Recommendations
2017-001	Internal Controls Over Utility Billing
2017-002	Allowance for Uncollectible Accounts

2017-001: Internal Controls Over Utility Billing

Criteria: The Committee of Sponsoring Organizations (COSO) outlines the components, principles and factors necessary for an organization to effectively manage its risks through the implementation of internal control. An important component of the COSO framework is the documentation and performance of control activities. These activities include supervisory review of activity, however for the control to be effective there must be some type of evidence retained in the system which documents the performance of the control.

Condition: Within the utility billing process performed by Water and Wastewater Services, the Business Operations Department performs a review of the PDF exception reports for reasonableness by the billing clerks and all corrections are to be approved by the Accounting Supervisor. During our testing, we noted there was no documented evidence of the review or approval process when performing the walkthroughs over utility billing. In addition, it is our understanding that utility billing clerks enter the corrections directly into the utility billing software and evidence of supervisory approval is not documented inside or outside the system.

Context: This condition is systemic in nature.

Cause: The Business Operations Department was not able to provide evidence of the supervisory reviews and approvals that were performed throughout the fiscal year as described above.

Effect: Failure to effectively document the performance of internal control activities could result in the activities not being performed and, as a result, a billing error could occur and not be detected resulting in a misstatement of the financial statements.

Recommendation: We recommend that the Business Operations Department review its current policies and procedures in place for review and approval over the utility billing process and establish some form of evidence of the reviews performed throughout the year.

Views of responsible officials and planned corrective action: When the meter reads are uploaded into the billing system from the vendor, a high/low use report is generated by the system. The Utility Billing Supervisor reviews the report and identifies meter readings that require additional investigation. The list is assigned to the Utility Billing staff to request a re-read from the meter reading contractor. The re-reads are compared to the original reading and a determination by staff is made regarding which meter reading is appropriate. If a meter reading is to be changed, it is entered into the utility billing system by staff. A preliminary bill run is then processed and another high/low use report is generated to ensure that the original high/low meter readings from the initial report have been addressed.

It is not practical for the supervisor to approve each meter reading adjustment on the system, nor does the system provide a field for doing so. However, staff has been directed to sign and date the hard copy of the report that is approved in both reviews.

We believe the review process is functioning appropriately; however we will improve the documentation required to substantiate this position.

2017-002: Allowance for Uncollectible Accounts

Criteria: The Committee of Sponsoring Organizations (COSO) outlines the components, principles and factors necessary for an organization to effectively manage its risks through the implementation of internal control. An important component of the COSO framework is the documentation and performance of control activities. Generally accepted accounting principles require that receivables be recorded at their net realizable value. As a result, proper internal controls over financial reporting require that an allowance for uncollectible accounts receivable be calculated and reported.

Condition: Water and Wastewater Services has an established policy for calculating an allowance for uncollectible accounts receivable. In the current year, the allowance for uncollectible accounts receivable was not initially calculated and the amount reported in the financial statements was rolled over from the prior year and adjusted for write-offs. No analysis was performed to determine if the amount recorded was appropriate based upon current year collections.

In addition, based on discussions with management, we learned that there are policies and procedures in place to shut-off customer accounts for being delinquent however these policies are not clearly written and are not being followed in an effective manner. They also do not have a well-documented process to follow up on collection of past due accounts. As a result, they often do not have the proper supporting documentation to show they made a good faith effort for collection in order to start potential legal actions for collections. Also, an inadequate follow up impacts the accuracy of the aging of accounts receivable and may result in less collections than originally expected.

Context: This condition is systemic in nature.

Cause: The Finance Department did not provide an analysis of the allowance for the current year in accordance with the policy and procedures in place. There was also no evidence of processes for customer shut-off or follow up on delinquent accounts.

Effect: Failure to follow the policies and procedures in place may result in the failure to report the receivables at their net realizable value resulting in an overstatement of assets.

Recommendation: We recommend that the Finance Department follow its current policies and procedures over the calculation and review of the allowance for uncollectible accounts. In addition, we recommend a policy should be developed that would provide clear guidance as to when water service should be turned off to prevent excessive past due accounts receivable balances from accumulating. Additionally, the overall collection processes should be evaluated and reviewed to make them as efficient and effective as possible.

Views of responsible officials and planned corrective action: There are two methods for addressing accounts receivable bad debt, the direct method and the allowance for uncollectible accounts. Both are acceptable methods for an entity to follow. Water and Wastewater Services has historically used both methods concurrently. It is not reasonable to address delinquencies with both methods which is why we did not calculate the allowance initially for fiscal year 2017. In fiscal year 2016, the allowance for doubtful accounts was 55.27% of the net accounts receivable subject to the allowance calculation. Management believed this was too high considering 100% of the receivable balance is a statutory lien on the property and that in previous years an allowance calculation included components of receivables that the utility had little risk of collection (invoices for Broward County agencies and third party invoicing for example) and/or were covered by a customer deposit. Additionally, we believe the current formula for the allowance reflects that 90% of an invoice that is more than 120 days (90 days past the due date) is uncollectable is too high. In fiscal year 2017, the allowance for doubtful accounts is 47.67% of the net accounts receivable subject to the allowance calculation. We also calculated the allowance with an alternative method that we believe is more reflective of our receivable risk. This alternative calculation indicated that the allowance on the financial statements exceeds what is necessary.

Our delinquent customer shut-offs occur Monday – Wednesday. The utility billing system is set to flag accounts that exceed \$100 of delinquency. In fiscal year 2017, there was an increased effort to place delinquent customers on payment plans to address the delinquent receivables. We expect to maintain this effort in the current year to reduce the outstanding receivables. However, even when a customer service is shut-off, they still continue to accrue delinquent fees and minimum monthly charges.

The utility billing system was upgraded in January 2018. One of the upgraded features is an automatic flag for turn-off when a customer fails to keep their payment agreement. This was a manual process in the previous system. We believe this feature in addition to the increased staff analysis of receivables will enhance our collection efforts.