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Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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June 10, 2020

The Honorable Jimmy Patronis
Chief Financial Officer
Department of Financial Services
PL 11, The Capitol
Tallahassee, Florida 32399-0350

Dear Chief Financial Officer Patronis:

In accordance with Section 11.45, Florida Statutes, as the State of Florida's independent external auditor, we have scheduled an audit of the basic financial statements of the State of Florida as of and for the fiscal year ending June 30, 2020. I will serve as the Audit Manager responsible for this engagement. As Audit Manager, I am responsible for the direction, supervision, and performance of the engagement in compliance with professional standards, applicable legal and regulatory requirements, and Auditor General policies and procedures. My responsibilities as Audit Manager also include ensuring that the audit report is appropriate in the circumstances, including ensuring that the audit report meets the objectives of and standards applicable to the engagement. The purpose of this letter is to describe the terms of our engagement with respect to management's responsibilities for those financial statements and accompanying information and the Auditor General's responsibility for the audit.

The objectives of our engagement are to:

- Express opinions as to whether the State's basic financial statements present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information and the respective changes in financial position and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America, for the fiscal year ending June 30, 2020.
- Determine whether financially oriented supplementary information in the State's Comprehensive Annual Financial Report are fairly presented, in all material respects, in relation to the applicable opinion units contained in the State's basic financial statements.
- Gain an understanding of the State and its environment, including its internal control, and assess the risk of material misstatement necessary to plan the audit and to determine whether the State has established and implemented a system of internal control to: provide for the proper authorization of financial transactions; provide reasonable assurance of the reliability of the recording and reporting of the State's operations; and provide for compliance with applicable laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the State of Florida's financial statements.
- Determine whether the State complied with applicable laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts reported on the State of Florida's financial statements.

- Determine whether the State has taken adequate corrective actions for financial statement findings included in the prior audit report.

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Title 2, U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Based on the results of our audit and the reports of other auditors, where applicable, we expect to prepare and issue:

- An independent auditor's report on the financial statements that provides our opinions or disclaimers of opinion on each opinion unit in the basic financial statements and on financial information that accompanies the basic financial statements.
- An 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*.

Our ability to express our opinions and render the reports referred to above, and the wording of our opinions and reports, will depend on the results of the audit and the facts and circumstances at the date of those reports. If circumstances preclude us from issuing unmodified opinions, we will discuss the reasons with you in advance. If circumstances preclude us from completing the audit and issuing our reports as we contemplate, we will advise you and other appropriate parties promptly and take appropriate action.

The reasonable and efficient conduct of the audit requires timely access to records and personnel and that our access to records and agency personnel not be restricted. Under *Government Auditing Standards*, the absence of such access may result in a limitation in the scope of our examination, and any such limitation, together with its impact, must be disclosed in our audit report. We respectfully request that you communicate with all affected agencies and component auditors that all financial records, supporting documents, and other related records necessary to complete the audit should be timely furnished to our audit staff. We are aware that, in some instances, certain records may be considered confidential pursuant to State law. If access to such records is necessary to accomplish our audit objectives, we will communicate separately with the applicable agency regarding such records.

Our audit will be conducted on the basis that management acknowledges and understands its responsibility for the preparation and fair presentation of the State of Florida's basic financial statements in accordance with accounting principles generally accepted in the United States of America and all accompanying information, as well as, all representations contained therein. That responsibility encompasses the establishment and maintenance of effective internal control over financial reporting; the selection of appropriate accounting policies and principles; the safeguarding of assets; the prevention and detection of fraud; and the identification and disclosure of noncompliance with significant State and Federal laws, rules, regulations, and contracts or grant agreements.

Management is also responsible for making all records and related information available to us in a timely manner; communicating to us known or suspected fraud involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the State of Florida's financial statements, and any allegations of fraud or suspected fraud received in communications from employees, former employees, analysts, regulators, or others; having a process to track the status of audit findings and recommendations, preparing a corrective action plan, and following up and taking corrective action on audit findings; adjusting the financial statements to correct material misstatements; and, at the conclusion of the audit, confirming to us

certain representations made during the audit and affirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement are immaterial, both individually and in the aggregate, to the respective opinion units contained in the State's basic financial statements.

Our audit of the State's basic financial statements does not relieve management or those charged with governance of their responsibilities.

Our responsibility is to express opinions on the applicable opinion units contained in the State's basic financial statements based on our audit and is limited to the period covered by our audit. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. Accordingly, our audit will require judgment about the areas selected for testing and the number of transactions examined. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the basic financial statements for each opinion unit are free of material misstatement, whether caused by error or fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned in accordance with GAAS. Consequently, an audit will not necessarily detect all misstatements that might exist due to error or fraud. In addition, an audit is not designed to detect errors or fraud that is immaterial to the basic financial statements. Characteristics of fraud include: (1) concealment through collusion among management, employees, or third parties; (2) withheld, misrepresented, or falsified documentation; and (3) the ability of management to override or instruct others to override what otherwise appear to be effective controls. We will ask management, internal auditors, and others within the various State agencies about fraud or suspected fraud, allegations of fraud or suspected fraud, the risks of fraud, programs and controls established to prevent and detect fraud, whether management has communicated information about those programs and controls to those charged with governance, and how management communicates to employees its views on business practices and ethical behavior.

Our audit of the State of Florida's basic financial statements includes obtaining an understanding of the State and its environment, including its internal control over financial reporting, sufficient to assess the risks of material misstatement to the financial statements and to design the nature, timing, and extent of further audit procedures. Our audit is not designed to provide assurance on the State's internal control over financial reporting or to identify significant deficiencies in the design or operation of internal control over financial reporting. However, we will communicate in writing to you and those charged with governance of significant deficiencies that come to our attention, and whether they are material weaknesses in internal control over financial reporting or compliance.

We will also obtain an understanding of and perform tests related to the State of Florida's internal control over compliance with certain provisions of State and Federal laws, rules, regulations, and contracts or grant agreements, noncompliance with which could have a direct and material effect on the State's basic financial statements. However, it is not our objective to provide an opinion on the State's compliance with those provisions and, accordingly, we will not express such an opinion.

Government Auditing Standards specify that, given the concept of accountability for the use of public resources and government authority, evaluating internal control in a government environment may also include considering internal control deficiencies that result in waste or abuse. While we are not required to perform specific procedures to detect waste or abuse in financial audits, we will be alert to situations or transactions that could be indicative of waste and abuse. Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose and can include activities that do

not include abuse and does not necessarily involve a violation of law. Abuse is a behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of State and Federal laws, regulations, and contracts or grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. The determination of waste and abuse is subjective, and under *Government Auditing Standards*, we are not expected to provide reasonable assurance of detecting waste or abuse. However, if we become aware of indications of waste or abuse, we will apply procedures to ascertain whether waste or abuse has occurred, its effect on the audit objectives, and whether and how to communicate such matters.

In planning our audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

Pursuant to GAAS, components of group financial statements are defined as any entity or business activity for which group or component management prepares financial information that is required by the applicable financial reporting framework to be included in the group financial statements. Components may include blended or discretely presented component units as defined by the Government Accounting Standards Board (GASB) literature, as well as other entities or business activities for which group or component management prepares financial information required to be included in the group financial statements by the financial reporting framework. We will conduct audit procedures to evaluate group management's internal control over the identification of components, which are audited by other auditors, and the compilation process for the State's financial statements to determine our ability to obtain sufficient, appropriate audit evidence on which to base our opinions on the State's group financial statements.

In support of our audit of the State's group financial statements, please review the listing of components included in Attachment A. Please identify additional components as necessary. Additionally, for each identified component please provide:

- The name of the component's auditor and applicable contact information;
- Any other engagements the component's auditor is involved in with respect to the State's group financial statements;
- The financial reporting framework utilized by the component;
- The auditing standards utilized by the component auditor;
- Restrictions, if any, placed on the component auditor's report;
- Differences, if any, in accounting policies between the component and the State's group financial statements; and
- The reporting date of such component if different from the reporting date of the State's group financial statements.

Based upon our understanding of the components and the component auditors obtained from this information and additional audit procedures, we will determine whether to assume responsibility for the work of the component auditors or make reference to the component auditors' audit reports in our report.

For all components identified, we request that you please facilitate: (1) our unrestricted communication with the component auditors subject to any laws or regulations; (2) communication to us of any important communications between component auditors and component management and those charged with governance of the component, including communications regarding

significant deficiencies and material weaknesses in internal control and; (3) communication to us of any important communications between components and regulatory authorities related to the components' financial reporting matters. Additionally, for all components identified, please provide to us a copy of the component auditor's report on the applicable component's financial statements upon receipt of such report and identify the component as either a blended, or discretely presented component, if applicable.

GASB standards require that management's discussion and analysis and certain other required supplementary information (RSI) be presented and supplement the State's basic financial statements. While we will disclaim an opinion on such information, as part of our engagement, we will apply certain limited procedures to the RSI. Those limited procedures will consist principally of inquiries of management regarding methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the State's basic financial statements, and other knowledge obtained during our audit of the State's basic financial statements.

Supplementary information other than RSI, such as combining and individual fund financial statements, and statistical data, also accompany the State's financial statements. While we will disclaim an opinion on such information, we will subject all supplementary information that is financially-oriented to the audit procedures applied in our audit of the basic financial statements and render our opinion on whether that information is fairly presented, in all material respects, in relation to the basic financial statements as a whole. We will also disclaim an opinion on supplementary information that comprises nonaccounting information or accounting information not directly related to the basic financial statements.

Management is responsible for the preparation of the supplementary information in accordance with the applicable criteria. Management is also responsible for including the auditor's report on the supplementary information in any document that contains the supplementary information and indicate that the auditor has reported on such supplementary information. We will make specific inquiries of management about supplementary information, the response to which we will request that management affirm to us in its representation letter. Those representations will include, but not be limited to:

- The supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria;
- The methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurement or presentation have changed, the reasons for such changes;
- Any significant assumptions or interpretations underlying the measurements or presentation of the supplementary information have been disclosed to the auditors; and
- When the supplementary information is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

At the conclusion of our audit, we will request other written representations from you and other appropriate parties about the basic financial statements and matters related thereto. We will provide you with an audit report titled *Independent Auditor's Report* for inclusion in your document titled *Florida Comprehensive Annual Financial Report*.

If you intend to publish or otherwise reproduce the financial statements and make reference to the Auditor General's reports, we will require access to printers' proofs or masters for our review and approval before publication. We will also require a copy of the final reproduced material for our approval before it is distributed. In connection with other information, we will read such information

in order to identify material inconsistencies, if any, with the audited financial statements and communicate to you and those charged with governance such results.

Pursuant to Section 11.45(4)(c), Florida Statutes, our audit working papers and notes are not a public record. We will retain our supporting working papers for 5 years after the issuance of the related audit report. We will make such working papers available to applicable Federal agencies or the Comptroller General of the United States as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities.

We are required by professional standards to inform you that this communication is intended solely for the information and use of those charged with governance and appropriate management and is not intended to be and should not be used by anyone other than these specified parties to the extent such limitation is not prohibited by applicable law.

Attachments A and B to this letter contain some customary and preliminary information requests. We will be in contact with Mr. Paul Whitfield, Director of the Division of Accounting and Auditing, to obtain this information. We will use this information to assist us in developing our audit schedule and coordinating our efforts with those of your staff.

We look forward to working with you and your staff. Please sign and date below to indicate your acknowledgement of, and agreement with, the arrangements for our audit, including our respective responsibilities as outlined in this engagement letter, and return the signed and dated copy to us. Please do not hesitate to contact me should you have any questions or concerns regarding the responsibilities enumerated herein.

Sincerely,



Joshua T. Barrett, CPA
Audit Manager
State Government Audits
(850) 412-2804

Acknowledged and agreed on behalf of the State of Florida.



July 8, 2020

Date

Attachments

c: The Honorable Ron DeSantis, Governor
Paul Whitfield, Director, Division of Accounting and Auditing
David T. Harper, Inspector General
Debbie Clark, Director of Audit
Ryan Nolan, Bureau Chief, Bureau of Financial Reporting

We have identified in the State of Florida's financial statements the following components which are audited by other auditors. For each of the identified components, please provide the information requested on page 4 of the letter, including the expected dates of the auditors' final reports. Also, please inform us of any additional components you may identify. Provision of the requested information, by no later than June 30, 2020, will be greatly appreciated.

Blended Components Units

CareerSource Florida, Inc.

Corrections Foundations, Inc.

Florida Clerks of Court Operations Corporation

Florida Commission on Community Service (Volunteer Florida)

Florida Engineers Management Corporation

Florida Hurricane Catastrophe Fund of the State Board of Administration

Florida Prepaid College Board (Prepaid Plan and Savings Plan)

Florida Surplus Lines Service Office

Scripps Florida Funding Corporation

Space Florida

Discretely Presented Components Units

It is our understanding that, with the exception of the Colleges and Universities, whose financial statements are audited by the Auditor General, all other discretely presented components, as identified in Note 1A to the prior financial statements, will have their financial statements audited by other auditors.

Other Components

The Florida Turnpike

State Board of Administration's Florida Retirement System Trust Fund and Public Employee Optional Retirement Program Trust Fund

Attachment B
Standards

- 1) It is our understanding that the State will not implement any new GASB statements for the fiscal year ending June 30, 2020. If the early implementation of any governmental accounting standard is planned, please notify us as soon as possible.
- 2) For any other change in standard, policy, or procedure, including those regarding financial statement presentations, that the Chief Financial Officer plans to implement for the 2019-20 fiscal year financial statements, please provide the following information in a written response on or before June 30, 2020.
 - A brief summary of the particular Chief Financial Officer procedures and implementation methodology.
 - A list of State agencies and organizations and the related Fund Identifiers that will be affected.
 - A summary of the anticipated effect on the financial statement presentation and related notes.
- 3) Please identify in your written response to us the date on which the recording of certain adjustments, such as security lending transactions, treasury fair market value transactions, and pension transactions, will be completed, the date the determination of major funds will be finalized, and the completion dates for various stages of the financial statement preparation process.