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MCDIRMIT DAVIS PUCKETT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
City Commissioners
City of Palm Coast, Florida

We have audited the basic financial statements of the *City of Palm Coast, Florida*, as of and for the year ended September 30, 2002, and have issued our report thereon dated November 14, 2002. 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.

Compliance – As part of obtaining reasonable assurance about whether the *City of Palm Coast, Florida's* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the *City of Palm Coast, Florida's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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This report is intended solely for the information and use of management, the City Commission and the Auditor General of the State of Florida, and is not intended to be, and should not be used by anyone other than these specified parties.

McDermitt Davis Puckett & Company, LLC

McDIRMIT DAVIS PUCKETT & COMPANY, LLC

November 14, 2002



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE
TO THE MAJOR STATE PROJECT

The Honorable Mayor and City Commissioners
City of Palm Coast, Florida
Palm Coast, Florida

Compliance

We have audited the compliance of the City of Palm Coast, Florida with the types of compliance requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that are applicable to the major state project for the year ended September 30, 2002. The City of Palm Coast' major state project is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state project is the responsibility of the City of Palm Coast, Florida management. Our responsibility is to express an opinion on the City of Palm Coast, Florida compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards, and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about City of Palm Coast, Florida compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Palm Coast, Florida compliance with those requirements.

In our opinion, the City of Palm Coast, Florida, complied, in all material respects, with the requirements referred to above that are applicable to its major state project for the year ended September 30, 2002.

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Internal Control Over Compliance

The management of the City of Palm Coast, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City of Palm Coast, Florida internal control over compliance with requirements that could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.650 Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City, the Auditor General of the State of Florida and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McDermitt Davis Puckett & Company, LLC

November 14, 2002

CITY OF PALM COAST, FLORIDA

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Year Ended September 30, 2002

<u>State Agency/Project Title</u>	<u>CFSA Number</u>	<u>Agency Grant Number</u>	<u>Expenditures</u>
Florida Department of Community Affairs: Florida Forever Act	52.002	FCT 01-013-FFi	\$4,992,608
Florida Department of Community Affairs: Division of Emergency Management - Public Assistance	-	T5058	31,767
Florida Department of Community Affairs: Division of Community Planning	52.005	01-DR-14-04-28-02-007	<u>40,000</u>
Total expenditures of state financial assistance			<u>\$5,064,375</u>

Note: This Schedule of Expenditures of State Financial Assistance is presented on the accrual basis of accounting in accordance with the requirements of Section 215.97, Florida statutes.

CITY OF PALM COAST, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
STATE PROJECT

Year Ended September 30, 2002

A. Summary of Auditor's Findings

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Palm Coast, Florida.
2. No instances of noncompliance material to the financial statements of the City of Palm Coast, Florida were disclosed during the audit.
3. The auditor's report on compliance for the major state project for the City of Palm Coast, Florida, expresses an unqualified opinion.
4. The program/project tested as major program/project included the following:

<u>State Project</u>	<u>State CSFA No.</u>
Florida Department of Community Affairs - Florida Forever Act	52.002

5. The threshold for distinguishing Type A and Type B programs/projects was \$300,000 for major state projects.