

OTHER REPORTS



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JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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**

To the Honorable Mayor, City Council, and City Manager,
City of Palm Coast, Florida:

We have audited the financial statements of City of Palm Coast, Florida (the City) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 1, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Accounts Payable Cutoff

Significant adjustments were required to record costs incurred during fiscal year ended September 30, 2007, for which invoices were either turned in late to accounts payable or for invoices received timely but not recorded in the proper period. Payables should be recorded in the period in which the goods are received or services rendered to reflect proper cutoff and ensure that the financial

statements are fairly stated with respect to expenditures and accounts payable. We recommend the City improve year-end cutoff procedures by stressing to department heads the importance of submitting invoices timely to accounts payable, centralizing contract monitoring to ensure proper contract accruals near year-end, and requiring vendors to send year-end statements. This will result in more accurate financial statements, highlight a potential problem area earlier so that corrective action can be taken, and assist the accounting department in ensuring the financial statements are accurate with respect to accounts payable.

Reporting of Capital Grant

A City's internal control system should enable the preparation of financial statements, including note disclosures in accordance with generally accepted accounting principles (GAAP). During the performance of our audit procedures, we noted a financial statement adjustment was required to reclassify operating grant revenues to capital grant revenues due to the nature of the funds received. This significant deficiency could result in future misstatements to the financial statements that would not be prevented or detected in a timely manner. We recommend an independent review of the financial statements be performed internally within the finance department prior to being submitted to us for review.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

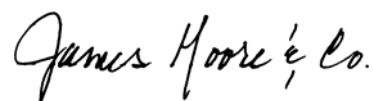
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

We noted certain matters that we reported to management of City of Palm Coast, Florida in a separate letter dated February 1, 2008.

The City of Palm Coast, Florida's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Palm Coast, Florida's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Daytona Beach, Florida
February 1, 2008



CITY OF PALM COAST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Federal Agency Pass-Through Entity Federal Program	CFDA Number	Contract/ Grant Number	Program Award Amount	Program Expenditures
FEDERAL AGENCY				
Department of Homeland Security				
Passed Through Florida Department of Community Affairs:				
Public Assistance Disaster Grant-Hurricane Katrina	97.036	N/A	\$ 66,755	\$ 66,755
Public Assistance Disaster Grant-Hurricane Katrina	97.036	N/A	16,881	16,881
				<u>83,636</u>
Environmental Protection Agency				
Passed Through Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	WW90302S	2,657,848	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	WW90303S	14,115,081	25,517
Capitalization Grants for Clean Water State Revolving Funds	66.458	SW903040	4,750,000	1,434,290
Capitalization Grants for Clean Water State Revolving Funds	66.458	WW903050	15,755,000	7,906,195
Capitalization Grants for Clean Water State Revolving Funds	66.458	WW903060	2,312,720	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	SW903070	5,800,000	-
				<u>9,366,002</u>
Federal Highway Administration				
Passed Through Florida Department of Transportation:				
Highway Planning and Construction -				
Pine Lakes Parkway Sidewalks	20.205	A0 159	400,000	-
Design of Graham Swamp Trail	20.205	AOC 01/AO 857	198,400	130,779
PD&E Study for Palm Coast Parkway	20.205	AOC 68	175,000	149,342
				<u>280,121</u>
Department of Housing and Urban Development				
Passed Through Florida Department of Community Affairs:				
Community Development Block Grants/State's Program	14.228	07DB-3K-07-38-02-E-22	475,000	364,204
Total Expenditures of Federal Awards				<u><u>\$ 10,093,963</u></u>

CITY OF PALM COAST, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes federal awards activity of City of Palm Coast, Florida and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

(2) **Loans payable:**

The accompanying Schedule of Expenditures of Federal Awards includes expenditures from six Federal loans the City has through the Florida Department of Environmental Protection (FDEP) under CFDA 66.458. The loans will be repaid over forty semiannual payments, which started on June 15, 2006. As of September 30, 2007, the City owed FDEP \$2,564,389, \$12,663,738, \$3,988,025, and \$7,906,195, respectively.

**CITY OF PALM COAST, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

A. Summary of Auditors' Results:

Financial Statements:

- Type of audit report issued on the basic financial statements: Unqualified.
- There were two significant deficiencies related to internal control over financial reporting disclosed by the audit of the basic financial statements.
- There were no material weaknesses related to internal control over financial reporting disclosed by the audit of the basic financial statements.
- The audit did not disclose any noncompliance, which was material to the basic financial statements.

Federal Awards:

- There were no significant deficiencies or material weaknesses related to internal control over major programs disclosed by the audit.
- Type of report issued on compliance for each major program: Unqualified.
- The audit did not disclose any audit findings, which are required to be reported under OMB Circular A-133 and Chapter 10.550, Rules of the Florida Auditor General.
- Major program identification:
CFDA Number 66.458 – Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Funds.

CFDA Number 14.228 – U.S. Department of Housing and Urban Development, Community Development Block Grant.
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The City of Palm Coast, Florida qualified as a low-risk auditee.

B. Financial Statement Findings: None

C. Federal Award Findings and Questioned Costs: None

D. Prior Audit Findings: No summary schedule of prior audit findings is required because there were no prior audit findings related to federal programs.

E. Corrective Action Plan: There was no corrective action plan necessary for the year ended September 30, 2007, since there were no audit findings related to federal programs.

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Honorable Mayor, City Council, and City Manager,
City of Palm Coast, Florida:

Compliance

We have audited the compliance of City of Palm Coast, Florida, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 federal program occurred. An audit includes examining, on a test basis, evidence about the City's 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 of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

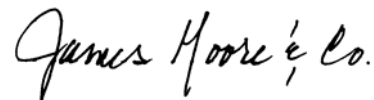
The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "James Moore & Co." in a cursive script.

Daytona Beach, Florida
February 1, 2008

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS
REQUIRED BY CHAPTER 10.550 RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Council, and City Manager,
City of Palm Coast, Florida:

We have audited the basic financial statements of City of Palm Coast, Florida (the City), as of and for the year ended September 30, 2007, and have issued our report thereon dated February 1, 2008.

We conducted our audit 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 the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

We have issued our 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*, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, Chapter 10.550 Rules of The Auditor General and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, which are dated February 1, 2008, should be considered in conjunction with this management letter.

Those rules (Section 10.554(1)(i) 1.) require that we address in the management letter, if not already addressed in the auditors' report on internal control and on compliance and other matters, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The City has properly corrected all the findings and recommendations made in the preceding annual financial audit report, except for the grant administration control deficiency noted below.

Grant Administration (Repeat from Prior Year)

We noted the City does not have its grant compliance monitoring, reporting and accounting duties centralized. These duties are currently shared between several individuals. We noted the City added a grant writer position subsequent to year end; however, the duties of this position do not include grant monitoring and compliance. We recommend the City centralize the grant duties to ensure proper compliance monitoring, maintenance of grant agreements and CFDA or CSFA numbers, timely reporting, and accurate grant accounting.

As required by the Rules of the Auditor General (Section 10.554(1)(i) 2.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, the City of Palm Coast, Florida has complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Sections 10.554(1)(i) 3., 4. and 5.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on internal control over financial reporting and on compliance and other matters: (1) recommendations to improve financial management, accounting procedures, and internal controls; (2) violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential; (3) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (4) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; (5) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that came to the attention of, the auditor. Our audit disclosed none of these matters not already addressed in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

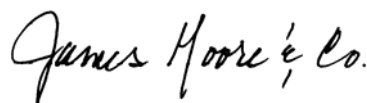
The Rules of the Auditor General (Section 10.554(1)(i) 6.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. City of Palm Coast, Florida, was incorporated on December 31, 1999 under Chapter 99-448, Laws of the State of Florida. There are no component units related to City of Palm Coast, Florida as of September 30, 2007.

The Rules of the Auditor General (Section 10.554(1)(i) 7.a.), require that we comment as to whether or not the City has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City has not met one or more of the conditions described in Section 218.503(1), Florida Statutes, regarding determination of financial emergency.

The Rules of the Auditor General (Section 10.554(1)(i) 7.b.), require that we comment as to whether or not the financial report 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 current audit period. The financial report 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.

As required by the Rules of the Auditor General (Section 10.554(1)(i) 7.c.), the scope of our audit included application of financial condition assessment procedures pursuant to Rule 10.556(7) of the Auditor General. It is Management's responsibility to monitor the City'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.

This report is intended solely for the information and use of the Auditor General of the State of Florida, management, others within the City, City Council, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Daytona Beach, Florida
February 1, 2008

FINANCIAL SERVICES DEPARTMENT

RESPONSE TO INTERNAL CONTROL AND MANAGEMENT COMMENTS

Honorable Mayor and City Council Members:

The Financial Services Department would like to provide a response to the management comments and recommendations submitted by the audit firm of James Moore & Co., P.L. for the current year.

1. **Accounts Payable Cutoff**

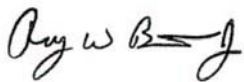
The finance department will be working to educate department heads and staff on the importance of submitting and accounting for invoices properly at year-end. We will also establish a contracts monitoring function to help identify potential contract accruals. In addition, we will work with the departments and vendors more closely in identifying costs that may be subject to accrual at year-end.

2. **Reporting of Capital Grant**

Draft financial statements that are submitted for auditor review may need adjustments and reclassification before being finalized in order to be in accordance with generally accepted accounting principles (GAAP). An independent review of the financial statements will be performed within the finance department before being submitted for auditor review to reduce the risk of adjustments.

3. **Grant Administration**

The City reorganized departments during the year modifying operating structures and responsibilities. Individual departments have been responsible for the application, compliance, and monitoring of their own grants. A position in the finance department will be utilized to centralize the monitoring, maintenance, and compliance of grants as well as provide departmental guidance and oversight. In addition, as part of the annual budgeting process, the possibility of a dedicated, centralized grants administration position will be explored.



Ray W. Britt, Jr.
Finance Director
February 1, 2008