

OTHER REPORTS



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**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, 2008, and have issued our report thereon dated January 30, 2009. 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described below to be a significant deficiency in internal control over financial reporting.

2008-01 Prior Period Adjustment for Donated Infrastructure

The City's engineering and utility departments track all infrastructure acquired via donation from developers. However, the City's accounting department discovered in 2008 that material amounts of land and infrastructure given to the City via developer donation had not been recorded in the City's accounting records. Accordingly, \$12 million in donated infrastructure was recorded as a prior period adjustment. Procedures were implemented in 2008 to ensure infrastructure donated to the City is periodically tracked, valued, and recorded.

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 the significant deficiency 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 in a separate letter dated January 30, 2009.

The 's response to the finding identified in our audit is described in the accompanying response to internal control and management comments. We did not audit '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 and State 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
January 30, 2009



CITY OF PALM COAST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL ASSISTANCE
AND STATE MATCHING OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>Federal Agency/State Agency, Pass-Through Entity, State Project</u>	<u>CFDA / CSFA Number</u>	<u>Contract/ Grant Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
FEDERAL AWARDS				
U.S. 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	\$ 61,254
Environmental Protection Agency				
Passed Through Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-050 / SW903040	4,750,000	153,854
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-060 / WW903050	7,392,376	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-060 / WW903060	2,312,720	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-060 / WW903080	6,793,716	5,320,932
			<u>21,248,812</u>	<u>5,474,786</u>
Federal Highway Administration				
Passed Through Florida Department of Transportation:				
Highway Planning and Construction - Design of Graham Swamp Trail	20.205	AOC 01/AO 857	198,400	67,621
Highway Planning and Construction - PD&E Study for Palm Coast Parkway	20.205	AOC 68	175,000	-
			<u>373,400</u>	<u>67,621</u>
U.S. Department of Homeland Security				
Passed Through State of Florida, Division of Emergency Management Public Assistance Subgrant Agreement for Tropical Storm Fay	97.036	08-PA-B9-04-28-13-652	356,857	356,857
Total Expenditures of Federal Awards				<u><u>\$ 5,960,518</u></u>
STATE FINANCIAL ASSISTANCE				
Florida Department of Environmental Protection				
Water Management Districts - Land Acquisition	37.022	F40306	\$ 766,818	\$ 766,818
Water Protection and Sustainability Program	37.066	SJ39112	511,000	128,063
			<u>1,277,818</u>	<u>894,881</u>
Florida Department of Community Affairs				
Florida local update of census addresses (LUCA)	52.038	08-DD-J3-04-28-02-056	22,741	13,221
Florida Forever Act	52.002	08-027-FF8	2,255,073	2,255,073
			<u>2,277,814</u>	<u>2,268,293</u>
Total Expenditures of State Financial Assistance				<u><u>\$ 3,163,174</u></u>
STATE MATCHING OF FEDERAL AWARDS				
Division of Emergency Management				
Public Assistance Subgrant Agreement for Tropical Storm Fay	97.036	08-PA-B9-04-28-13-652	\$ 59,476	\$ 59,476
Total Expenditures of State Matching of Federal Awards				<u><u>\$ 59,476</u></u>
Total Expenditures of Federal Awards, State Financial Assistance, and State Matching of Federal Awards				<u><u>\$ 9,183,168</u></u>

CITY OF PALM COAST, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL
ASSISTANCE AND STATE MATCHING OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards, State Financial Assistance, and State Matching of Federal Awards includes federal and state awards activity of 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*, and Section 215.97, Florida Statutes, Florida Single Audit Act.

(2) **Loans payable:**

The accompanying Schedule of Expenditures of Federal Awards, State Financial Assistance, and State Matching of Federal Awards includes expenditures from three 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. As of September 30, 2008, the City owed FDEP \$7,668,560, \$3,919,270, and \$5,675,988 respectively.

CITY OF PALM COAST, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS,
STATE FINANCIAL ASSISTANCE PROJECTS AND STATE MATCHING OF FEDERAL
AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Auditors' Results:

Financial Statements:

- Type of audit report issued on the basic financial statements: *Unqualified.*

Internal control over financial reporting:

- There was one material weakness related to internal control over financial reporting disclosed by the audit of the basic financial statements.
- There were no significant deficiencies related to internal control over financial reporting disclosed by the audit of the basic financial statements not considered to be material weaknesses.
- The audit did not disclose any noncompliance, which was material to the basic financial statements.

Federal Awards:

Internal control over major programs:

- There were no material weaknesses related to internal control over major programs disclosed by the audit.
- There were no significant deficiencies related to internal control over major programs disclosed by the audit not considered to be material weaknesses.
- 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.
- Major program identification:
CFDA Number 66.458 – Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Funds

CFDA Number 97.036 – U.S. Department of Homeland Security, Public Assistance Subgrant Agreement for Tropical Storm Fay
- 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.

State Financial Assistance:

Internal control over major projects:

- There were no material weaknesses related to internal control over major projects disclosed by the audit.
- There were no significant deficiencies related to internal control over major projects disclosed by the audit not considered to be material weaknesses.
- Type of report issued on compliance for each major project: *Unqualified*.
- The audit did not disclose any audit findings, which are required to be reported under Chapter 10.550, Rules of the Florida Auditor General.
- Major program identification:
CSFA Number 52.002 – Florida Department of Community Affairs, Florida Forever Act.

CSFA Number 37.022 – Florida Department of Environmental Protection, Water Management Districts – Land Acquisition
- 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:

2008-01 Prior Period Adjustment for Donated Infrastructure

The City's engineering and utility departments track all infrastructure acquired via donation from developers. However, the City's accounting department discovered in 2008 that material amounts of land and infrastructure given to the City via developer donation had not been recorded in the City's accounting records. Accordingly, \$12 million in donated infrastructure was recorded as a prior period adjustment. Procedures were implemented in 2008 to ensure infrastructure donated to the City is periodically tracked, valued, and recorded.

- C. **Federal Award and State Financial Assistance 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, 2008, since there were no audit findings related to federal program or state projects.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

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* and the requirements described in the State of Florida Department of Financial Services Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008. The City's major federal programs and state projects 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 and state projects 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, 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 federal program or state project 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 and state projects for the year ended September 30, 2008.

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 and state projects. 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 or state project 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 an entity'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 or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity'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 or state project will not be prevented or detected by the entity'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 and state 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
January 30, 2009



**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, 2008, and have issued our report thereon dated January 30, 2009.

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; the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and Section 215.97, Florida Statutes, Florida Single Audit Act. Disclosures in those reports, if any, should be considered in conjunction with this management letter. 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.

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 over financial reporting 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 findings and recommendations made in the preceding annual financial audit report have been corrected.

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, has complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Sections 10.554(1)(i) 3. and 4.) 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 and (2) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. The following are our recommendations to management not included in 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*.

Reliance on Excel spreadsheets for Financial Statement Preparation

At present, the City is very dependent on Excel spreadsheets to reconcile general ledger accounts and draft the financial statements. The general ledger detail is tracked in the accounting system (MUNIS) and then keyed into Excel spreadsheets to produce lead schedules and draft the financial statements. Manual keying into spreadsheets increases the risk of inadvertent errors. Several such keying errors were noted during the course of our audit that had to be corrected. We recommend the City significantly reduce the use of Excel spreadsheets and shift toward the use of a trial balance system to prepare lead schedules and draft the financial statements. Such a system would eliminate redundant processing and improve the City's accounting processes.

Financial Statement Classification of Bad Debt Expense

During the course of our audit, we noted bad debt expense was classified on the financial statements as an expense line item in the proprietary funds. However, according to governmental accounting standards, bad debt expense must be offset against current year revenue in both governmental and proprietary funds. The necessary reclassifying entries were made in the current year to correct this error.

Tennis Center - Establish Controls over Cash Receipts

During the course of our audit, we noted the procedures related to cash receipts at the Tennis Center indicated a lack of control in the receiving, depositing, and recording of cash receipts. Receipts are not consistently provided to customers and monies are kept in an envelope in an unlocked drawer for several days until it is forwarded to City Hall for deposit. We recommend prenumbered receipts be provided in all instances, and their sequence be accounted for, to ensure all monies are recorded and deposited. We also recommend cash received be kept in a locked drawer or safe until delivered to City Hall for processing.

The Rules of the Auditor General (Section 10.554(1)(i) 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. For matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or were likely to have occurred; (2) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (3) failures to properly record financial transactions; (4) 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 Based 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 as defined in publications cited in Rule 10.553 be disclosed, unless disclosed in the notes to the financial statements. The 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, 2008.

The Rules of the Auditor General (Section 10.554(1)(i) 7.a.), require that we comment as to whether or not one or more of the conditions described in Section 218.503(1), Florida Statutes, regarding determination of financial emergency have been met. In connection with our audit, we determined that City of Palm Coast, Florida, did not meet one or more of the conditions described in Section 218.503(1), Florida Statutes. Although City of Palm Coast, Florida reported deficit unrestricted net assets of \$113,250, \$3,418,240, and \$25,398 in its solid waste, storm water, and tennis center funds, respectively, and negative fund balance of \$5,367,232 in its SR100 CRA fund as of September 30, 2008, City of Palm Coast, Florida had unrestricted capital assets available to cover the reported deficit and the disposal of such assets would not impair City of Palm Coast, Florida's ability to carry out its functions. The City also has unrestricted net assets and unreserved fund balances in other funds that could be used by the funds with deficits.

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

James Moore & Co.

Daytona Beach, Florida
January 30, 2009



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. Reliance on Excel spreadsheets for Financial Statement Preparation

The finance department is currently investigating trial balance software systems in order to eliminate our reliance on Excel spreadsheets for financial statement preparation. We anticipate requesting necessary funding for this conversion as part of the fiscal year 2010 budget process.

2. Financial Statement Classification of Bad Debt Expense

Proprietary fund bad debt expense has been reclassified in our accounting system to automatically be offset against current revenue. In addition, a secondary review step has been added to our year end reconciliation process to confirm the proper recording of this expense for financial statement purposes.

3. Tennis Center – Establish Controls over Cash Receipts

Extensive training has taken place at the Tennis Center relating to the recording and handling of cash receipts. Existing procedures related to issuing receipts and cash handling has been the primary focus of the training. Also, a finance department employee is visiting the Tennis Center daily to retrieve all cash receipts and related documentation for review and reconciliation by a member of the Finance department.

4. Donated Infrastructure

Procedures related to the reporting and recording of developer contributed infrastructure have been established to correct the internal control weakness. All contributions of infrastructure will be properly documented and submitted to the Finance department for recording. Also, the Finance department will conduct periodic reviews of internal documentation to confirm that all donated infrastructure is properly recorded.

Ray W. Britt, Jr.
Finance Director
January 30, 2009