

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 the City of Palm Coast, Florida (the City) as of and for the year ended September 30, 2009, and have issued our report thereon dated February 25, 2010. 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 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. [2009-01 and 2009-02]

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 the City of Palm Coast, Florida in a separate letter dated February 25, 2010.

The City of Palm Coast, Florida'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 the City of Palm Coast, Florida's response and, accordingly, we express no opinion on it.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this 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 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., P.L.C.

Daytona Beach, Florida
February 25 2010

**CITY OF PALM COAST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE MATCHING OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

<u>Federal Agency/State Agency, Pass-Through Entity</u>	<u>CFDA 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	10DB-4X-04-28-02-F 20	\$ 2,664,903	\$ 5,856
Environmental Protection Agency				
Passed Through Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-050 / SW903040	4,750,359	-
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	1,404,248
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-050 / SW903070	3,740,362	713,925
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-060 / WW903080	6,793,716	323,147
			<u>24,989,533</u>	<u>2,441,320</u>
U.S. Department of Homeland Security				
Passed Through State of Florida, Division of Emergency Management				
Public Assistance Subgrant Agreement for May Rain Event	97.036	09-PA-035-54200-00	671,230	671,230
Total Expenditures of Federal Awards				<u><u>\$ 3,118,406</u></u>
STATE MATCHING OF FEDERAL AWARDS				
Division of Emergency Management				
Public Assistance Subgrant Agreement for May Rain Event	97.036	09-PA-035-54200-00	\$ 111,872	\$ 111,872
Total Expenditures of State Matching of Federal Awards				<u><u>\$ 111,872</u></u>
Total Expenditures of Federal Awards and State Matching of Federal Awards				<u><u>\$ 3,230,278</u></u>

CITY OF PALM COAST, FLORIDA
NOTED TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE
MATCHING OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

(1) Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards and State Matching of Federal Awards includes federal and state awards activity of the 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 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, 2009, the City owed FDEP \$1,404,248, \$713,925, and \$5,667,491 respectively.

CITY OF PALM COAST, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. Summary of Auditors' Results:

Financial Statements:

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

Internal control over financial reporting:

- Two significant deficiencies related to internal control over financial reporting were disclosed by the audit of the basic financial statements and none were reported as a material weakness.
- The audit did not disclose any noncompliance, which was material to the basic financial statements.

Federal Awards:

Internal control over major Federal programs:

- 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.
- Major program identification:
CFDA Number 66.458 – Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Funds
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The City of Palm Coast, Florida did not qualify as a low-risk auditee.

B. Financial Statement Findings:

2009-01 Year End Closing Procedures

We proposed and management corrected two financial statement adjustments that were identified as a result of our audit procedures. The first was in the Streets Improvement Fund whereas the fourth quarter discretionary tax revenue and related receivable from the State of Florida was not recorded. The second was interest incurred on debt in the proprietary funds was not properly capitalized to construction projects as required by accounting standards. The finance department performs numerous closing entries and reconciliations that are done only once a year to ensure that the City's financial statements are in accordance with accounting principles generally accepted in the United States of America. We recommend the City develop a comprehensive year end checklist for these once a year entries. The City could use the Government Finance Officers Association Disclosure Checklist as a guide to ensure the checklist includes non-routine transactions as well as specific annual entries.

2009-02 Review Wage Rates and Salary Expense Allocation

We noted certain instances in which the City paid employees at the incorrect rate. These errors occurred due to the incorrect pay grade report being used to update the payroll system, which indicates a lack of supervision and review in the Human Resources Department. This error was also discovered by the City's Finance Department during an internal review of payroll. In addition, we noted two instances in which an employee's salary expense was not allocated to the proper department within the City. Although the items discovered were not material to the financial statements, this incorrect coding could become material if an employee's salary was coded to a fund or department with restricted resources. To prevent such errors, we recommend that all pay rate changes be reviewed by a supervisor prior to the payroll being processed. In addition, we recommend that the City conduct periodic reviews of each employee's salary allocation to determine its appropriateness to the department and fund being charged.

- 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, 2009, 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 the 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, 2009. The City's major federal program is 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 its major federal program 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 its major federal program for the year ended September 30, 2009.

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 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 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 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 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 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this 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 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., P.L.C.

Daytona Beach, Florida
February 25, 2010

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 the City of Palm Coast, Florida (the City), as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated February 25, 2010.

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*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 25, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

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 findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address all findings and recommendations made in the preceding annual financial audit report.

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, we determined that the City 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 provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statement amounts that is less than material but more than inconsequential. The following is our recommendation 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*.

2009-03 Investment Account Transfer Policies

During the course of our audit, we noted weaknesses in the City's policies regarding transfers out of the City's investment account. During the year ended September 30, 2009, the Custody Agreement with the investment holder did not specify the need for authorized signers for transfers of cash or securities. The City is currently in the process of amending this Custody Agreement to disallow the transfer of securities in any form and to require the signature of the City Manager and the Finance Director for any cash transfer. The Custody Agreement is also being amended such that cash transfers can only be made to a pre-approved list of City bank accounts that can be changed only with the authorization of both the City Manager and the Finance Director.

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 have an effect on financial statement amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that have occurred, or were likely to have occurred, and (2) control deficiencies that are not significant deficiencies. 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 the City as of September 30, 2009.

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 the City, did not meet one or more of the conditions described in Section 218.503(1), Florida Statutes. The City reported deficit unrestricted net assets of \$4,019,173, \$3,933,226, and \$34,820 in its storm water, golf course, and tennis center funds, respectively, and negative fund balances of \$5,584,055, \$209,907, and \$3,252,107 in its SR100 CRA, fire impact fee, and OKR special assessment funds, respectively, as of September 30, 2009. However, the City had unrestricted net assets and unreserved fund balances in other funds that can be used by the funds with deficits and had unrestricted capital assets available to cover the reported deficits and the disposal of such assets would not impair the City's ability to carry out its functions.

The Rules of the Auditor General (Section 10.554(1)(i) 7.b.), require that we comment as to whether or not the annual financial report for the City for the fiscal year ended September 30, 2009, 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, 2009. 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this 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 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., P.L.

Daytona Beach, Florida
February 25, 2010