

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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palm Coast, Florida (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 10, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2010-01 and 2010-02]

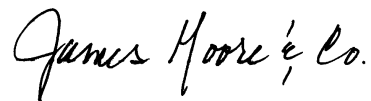
Compliance and Other Matters

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 10, 2011.

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

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 report 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.



Daytona Beach, Florida
February 10, 2011

**CITY OF PALM COAST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Federal Agency, Pass-Through Entity	CFDA Number	Contract / Grant Number	Program Award Amount	Program Expenditures
FEDERAL AWARDS				
U.S. Department of Housing and Urban Development				
Passed Through Florida Department of Community Affairs: Community Development Block Grants	14.228	10DB-4X-04-28-02-F 20	\$ 2,664,903	\$ 1,652,210
Environmental Protection Agency				
Passed Through Florida Department of Environmental Protection: Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-050 / SW903040	4,822,150	486,000
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-050 / SW903070	3,740,362	1,310,135
				<u>1,796,135</u>
U.S. Department of Homeland Security				
Passed Through State of Florida, Division of Emergency Management Hazard Mitigation Grant - Tropical Storm Fay	97.039	10HM-88-04-28-02-015	172,016	130,676
U.S. Department of Commerce				
Passed Through the National Oceanic and Atmospheric Administration: Coastal Zone Management Administration Awards	11.419	CM020	50,000	46,900
U.S. Department of Agriculture				
Passed Through State of Florida, Natural Resources Conservation Service Emergency Watershed Protection Program	10.923	69-4209-10-1753	118,969	63,994
U.S. Department of Energy				
Passed Through State of Florida, Department of Energy ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0001403	648,000	459,158
Department of Transportation				
Passed Through State of Florida, Department of Transportation ARRA - Highway Planning and Construction - Bridge 764061 Rehabilitation	20.205	APP 95	741,882	596,014
ARRA - Highway Planning and Construction - Belle Terre Phase I Multi-Use Path	20.205	APU 88	319,809	318,326
ARRA - Highway Planning and Construction - Palm Coast Parkway SE Resurfacing	20.205	APV 90	282,000	264,355
Highway Planning and Construction - Rymfire Drive Multi-Use Path	20.205	APV 95	402,538	9,640
Highway Planning and Construction - OKR North Design Widening	20.205	APE 71	318,378	252,622
Highway Planning and Construction - OKR North Design Extension	20.205	APS 73	136,447	114,063
Highway Planning and Construction - Construction of Graham Swamp Trail	20.205	APF 35	654,216	654,216
				<u>2,209,236</u>
Passed Through State of Florida, Department of Transportation State Traffic Safety Information System Improvement Grants	20.610	AP079	12,000	10,095
Total Department of Transportation				<u>2,219,331</u>
Total Expenditures of Federal Awards				<u>\$ 6,368,404</u>

CITY OF PALM COAST, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes federal 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 includes expenditures from two 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, 2010, the City owed FDEP \$3,967,368 and \$1,904,033, respectively.

CITY OF PALM COAST, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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, which are both considered material weaknesses.
- The audit did not disclose any noncompliance, which was material to the basic financial statements.

Federal Awards:

Internal control over major Federal programs:

- One significant deficiency related to internal control over major Federal programs was disclosed by the audit, which is considered a material weakness.
- Type of report issued on compliance for each major program: *Unqualified.*
- The audit disclosed audit findings, which are required to be reported under OMB Circular A-133 and are included in this schedule.
- Major program identification:
 - CFDA No. 14.228 – U.S. Department of Housing and Urban Development, Community Development Block Grants
 - CFDA No. 81.128 – U.S. Department of Energy, Energy Efficient and Conservation Block Grant Program
 - CFDA No. 20.205 – Department of Transportation, Highway Planning and Construction
- 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:

2010-01 Prior Period Adjustment Related to Land

During an internal audit of capital assets during the year ended September 30, 2010, the Finance Department discovered approximately \$4.75 Million of land related to Governmental Activities had been duplicated. The duplication of these land values is attributed to the fiscal years ending in 2000 and 2001 when the City was entering all beginning land information received from Flagler County. This duplication resulted in land values and net assets as of September 30, 2009 in the Governmental Activities of the Government-wide statements being overstated. As such, a prior period adjustment is required in the current year to reduce land values and net assets in the amount of \$4.75 Million.

2010-02 Revenue Accruals Related to the Schedule of Expenditures of Federal Awards

Upon reconciling various grant expenditures with the related revenue accrual as of September 30, 2010, we noted the accrual for reimbursement requests on the Florida Department of Transportation - Palm Coast Parkway Resurfacing Grant was incomplete. The journal entry required to correct the revenue accrual was an increase to both revenue and amounts due from other governments by \$198,590 in the Streets Improvement Fund. The City Finance Department had properly reported the current year expenditures for this grant on the Schedule of Expenditures of Federal Awards although the revenue accrual was missed. In addition, instances were noted in which the amount expended on the Schedule of Expenditures of Federal Awards had to be revised to actual. This was primarily due to the City Finance Department's process of entering total project expenditures on the Schedule versus only those expenditures reimbursable under Federal Awards. To avoid such errors in the future, we recommend the City implement a procedure to reconcile grant expenditures from the Schedule of Expenditures of Federal Awards to the related revenue accounts to ensure completeness.

C. Federal Award and State Financial Assistance Findings and Questioned Costs:

2010-02 Revenue Accruals Related to the Schedule of Expenditures of Federal Awards

See comment detail above.

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:

See attached response to management comments as defined in the table of contents.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 City of Palm Coast, Florida's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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 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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-02 to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

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 report 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.

A handwritten signature in cursive script that reads "James Moore & Co." The signature is written in black ink and is positioned to the right of the main body of text.

Daytona Beach, Florida
February 10, 2011

**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, 2010, and have issued our report thereon dated February 10, 2011.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 10, 2011, 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 auditors' reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine 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.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include 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.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. Such recommendations have been 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* as items 2010-01 and 2010-02.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address 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 statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

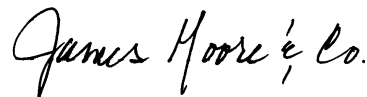
Section 10.554 (1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of 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, 2010.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City, did not meet any of the conditions described in Section 218.503(1), Florida Statutes. The City reported deficit unrestricted net assets of \$817,118, \$5,602,756, 35,444, and \$1,661,702 in its storm water, golf course, tennis center, and IT & C funds, respectively, and negative fund balances of \$4,867,803, \$2,585,777, and \$5,107,839 in its transportation impact fee, SR100 CRA, and OKR special assessment funds, respectively, as of September 30, 2010. However, the City had unrestricted net assets and unassigned and committed 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.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2010, 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, 2010. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. 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 assessment was made as of the fiscal year ended September 30, 2010.

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.



Daytona Beach, Florida
February 10, 2011



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. **Prior Period Adjustment Related to Land**

Periodically, the Financial Services Department performs internal audits as part of our process to ensure the accuracy of the financial statements as a whole, as well as various financial calculations relating to presentations to City Council. These internal audits can uncover historical transactions that were recorded in error, as was this case with the duplicate posting of land at the inception of the City. Our current procedures include steps to detect and prevent the duplicate posting of capital assets.

2. **Revenue Accruals Related to the Schedule of Expenditures of Federal Awards**

Our current procedure for preparing our reconciliation of the Schedule of Expenditures of Federal Awards has been modified in order to minimize potential errors in the future. In addition to these new procedures, we are adding a second review of the schedule and supporting information by someone outside of the grant accounting process.

Ray W. Britt, Jr.

Finance Director
February 10, 2011