

## **OTHER REPORTS**



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**INDEPENDENT AUDITORS' 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 10, 2012. 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.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

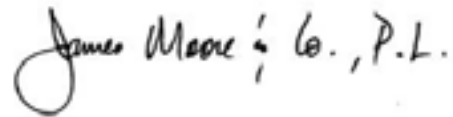
**Compliance and Other Matters**

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, 2012.

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.

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Daytona Beach, Florida  
February 10, 2012

**CITY OF PALM COAST, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<b>Federal Agency, Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Contract / Grant Number</b>	<b>Program Award Amount</b>	<b>Program Expenditures</b>
<b>FEDERAL AWARDS</b>				
<b>U.S. Department of Housing and Urban Development</b>				
Direct:				
Community Development Block Grants	14.218	B-11-MN-12-0034	\$ 1,375,071	\$ 24,821
Passed Through Florida Department of Community Affairs:				
Community Development Block Grants	14.228	10DB-4X-04-28-02-F 20	2,664,903	698,951
Total U.S. Department of Housing and Urban Development				<u>723,772</u>
<b>Environmental Protection Agency</b>				
Passed Through Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS120001-050 / SW903070	3,740,362	<u>851,844</u>
<b>U.S. Department of Homeland Security</b>				
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	<u>22,652</u>
<b>U.S. Department of Agriculture</b>				
Passed Through State of Florida, Natural Resources Conservation Service				
Emergency Watershed Protection Program	10.923	69-4209-10-1753	89,400	<u>25,406</u>
<b>U.S. Department of Energy</b>				
Passed Through State of Florida, Department of Energy				
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0001403	648,000	<u>188,842</u>
<b>Department of Transportation</b>				
Passed Through State of Florida, Department of Transportation				
ARRA - Highway Planning and Construction - Bridge 764061 Rehabilitation	20.205	APP 95	741,882	145,868
ARRA - Highway Planning and Construction - Belle Terre Phase I Multi-Use Path	20.205	APU 88	319,809	1,483
ARRA - Highway Planning and Construction - Belle Terre Phase I Multi-Use Path	20.205	APY 50	1,680,194	487,529
ARRA - Highway Planning and Construction - Whiteview Multi-Use Path	20.205	AQ 171	703,328	160,242
ARRA - Highway Planning and Construction - Palm Harbor Multi-Use Trail	20.205	AQ 247	1,380,116	29,438
Highway Planning and Construction - Rymfire Drive Multi-Use Path	20.205	APV 95	402,538	20,000
Highway Planning and Construction - Palm Coast Parkway	20.205	AQ 462	1,496,745	417,371
Highway Planning and Construction - OKR North Design Widening	20.205	APE 71	318,378	65,755
Highway Planning and Construction - OKR North Design Extension	20.205	APS 73	136,447	22,383
Total Department of Transportation				<u>1,350,069</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 3,162,585</u></u>

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

(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 one Federal loan the City has through the Florida Department of Environmental Protection (FDEP) under CFDA 66.458. The loan will be repaid over forty semiannual payments. As of September 30, 2011, the City owed FDEP \$2,528,236 on this loan.

**CITY OF PALM COAST, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**A. Summary of Auditors' Results:**

**Financial Statements:**

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

**Internal control over financial reporting:**

- There were no significant deficiencies or material weaknesses related to internal control over financial reporting disclosed by the audit of the basic financial statements.
- There were no instances of noncompliance material to the financial statements of the City of Palm Coast, Florida disclosed during the audit.

**Federal Awards:**

**Internal control over major federal programs:**

- There were no significant deficiencies or material weaknesses related to internal control over major federal 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 No. 14.228 – U.S. Department of Housing and Urban Development, Community Development Block Grants
  - CFDA No. 20.205 – U.S. Department of Transportation, Highway Planning and Construction, ARRA
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The City of Palm Coast, Florida is not considered to be a low-risk auditee.

**B. Financial Statement Findings:**

None.

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

None.

**D. Prior Audit Findings:**

**2010-01 Prior Period Adjustment Related to Land:** Corrective action taken.

**2010-02 Revenue Accruals Related to the Schedule of Expenditures of Federal Awards:**  
Corrective action taken.

**E. Corrective Action Plan:**

No corrective action plan as there were no findings for the year ended September 30, 2011.



**INDEPENDENT AUDITORS' 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, 2011. 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 of Palm Coast, Florida, complied, in all material respects, with the compliance 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, 2011.

**Internal Control over Compliance**

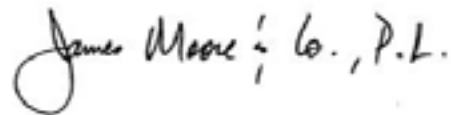
Management of the City of Palm Coast, Florida, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 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.

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Daytona Beach, Florida  
February 10, 2012

**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, 2011, and have issued our report thereon dated February 10, 2012.

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, 2012, 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. In connection with our audit, we did not have any such recommendations.

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 effect 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. The following is our recommendation to management not included in our Independent Auditors' 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*.

**2011-01 Segregation of Duties over Journal Entries:**

Upon the retirement of the former Finance Director during the month of September 2011, we noted the new Finance Director (former Chief Accountant) has access to all primary areas of the general ledger and has access to post journal entries without approval by another person. Such incompatible duties create an opportunity for misappropriation of assets and/or fraudulent financial reporting as well as a way to conceal these activities.

Previously, the Chief Accountant would post journal entries which were then approved by the Finance Director. A fundamental concept in a good system of internal control is the segregation of duties. Upon the retirement of the former Finance Director, the City's finance department prohibits complete adherence to this concept.

The City has addressed goals for the fiscal year ended September 30, 2012, whereas upon proper training of other finance department staff, the new Finance Director will be removed from the preparation of journal entries function in order to take on the review and approval role. With the successful implementation of this procedure, we believe the segregation of duties surrounding the Finance Director would be improved.

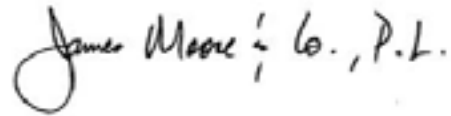
Section 10.554 (1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of 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, 2011.

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 \$1,187,739, \$5,534,914, \$23,584, and \$1,938,741 in its storm water, golf course, tennis center, and IT&C funds, respectively, and negative fund balances of \$5,072,319, \$3,670,218, and \$5,118,033 in its transportation impact fee, SR100 CRA, and OKR special assessment funds, respectively, as of September 30, 2011. 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, 2011, 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, 2011. 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, 2011.

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.

A handwritten signature in black ink that reads "James Moore & Co., P.L.". The signature is written in a cursive style with a large initial "J" and a distinct "Co." at the end.

Daytona Beach, Florida  
February 10, 2012



## 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. Segregation of Duties over Journal Entries**

With the retirement of the former Finance Director, the position of Chief Accountant and Finance Director were combined as part of the City's ongoing cost containment program. Due to this change, the Finance Director is in a position of creating and approving his own journal entries. Existing staff is currently being trained in order to remove the Finance Director from the function of preparing journal entries.

Christopher M. Quinn

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Finance Director  
February 10, 2012