

## **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, 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, 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, 2013, and related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2014.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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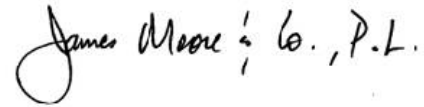
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### ***Compliance and Other Matters***

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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive, flowing style.

Daytona Beach, Florida  
January 22, 2014

**CITY OF PALM COAST, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Federal Agency, Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Contract / Grant Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<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	\$ 391,578
Community Development Block Grants	14.218	B-12-MC-12-0060	318,338	20,268
				<u>411,846</u>
Passed Through Florida Department of Community Affairs:				
Community Development Block Grants	14.228	10DB-4X-04-28-02-F 20	2,664,903	225,572
Community Development Block Grants	14.228	11DB-T3-04-28-02-H18	750,000	322,201
				<u>547,773</u>
Total U.S. Department of Housing and Urban Development				<u>959,619</u>
<b>Department of Transportation</b>				
Passed Through State of Florida, Department of Transportation				
ARRA - Highway Planning and Construction - Belle Terre Phase III Multi-Use Path	20.205	APY 50	1,680,194	48,812
ARRA - Highway Planning and Construction - Palm Harbor Multi-Use Trail	20.205	AQ 247	1,380,116	303,042
Highway Planning and Construction - Palm Coast Parkway Six Lane Row Acquisition	20.205	AQN 01	485,334	182,958
Highway Planning and Construction - Palm Coast Parkway Six Lane Design	20.205	AQ 462	1,164,500	11,681
Total Department of Transportation				<u>546,493</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 1,506,112</u></u>

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

(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*.

DRAFT

**CITY OF PALM COAST, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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

**Financial Statements:**

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

**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: *Unmodified.*
- The audit did not disclose any audit findings, which are required to be reported under OMB Circular A-133.
- Major program identification:  
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 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:** None

**E. Corrective Action Plan:** No corrective action plan as there were no findings for the year ended September 30, 2013.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND REPORT 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:

**Report on Compliance for Each Major Federal Program**

We have audited the City of Palm Coast, Florida's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget 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, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Palm Coast, Florida complied, in all material respects, with the types of 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, 2013.

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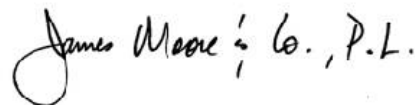
## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. A *significant deficiency in internal over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in dark ink, reading "James Moore & Co., P.L." with a stylized flourish at the end.

Daytona Beach, Florida  
January 22, 2014

**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, 2013, and have issued our report thereon dated January 22, 2014.

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 for each Major Federal Program Report 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 January 22, 2014, 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 except as follows:

**2011-001 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.

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The City has established goals 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.

#### **2012-001 Deficit Net Position and Negative Fund Balances (Modified Amounts)**

In connection with our audit, we determined the City met the condition described in Section 218.39(5)(b), Florida Statutes; and therefore, we are required to notify each member of the governing body. The City reported deficit unrestricted net position of \$18,705 and \$3,670 in its golf course and tennis center funds, respectively, and negative fund balances of \$2,432,738, \$825,340, and \$4,899,031 in its transportation impact fee, SR100 CRA, and OKR special assessment funds, respectively, as of September 30, 2013. However, the City had unrestricted net position and unassigned fund balances in other funds that can be used by the funds with deficits to cover the reported deficits and would not impair the City's ability to carry out its functions.

In addition, finding 2011-001, listed above, was included in the second preceding fiscal year financial audit report under the same paragraph heading.

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 noted the following recommendation:

#### **2013-001 Expenditures over Budget**

The City reported actual expenditures of \$3,879,349 and budgeted expenditures of \$3,685,700 in the Streets Improvement fund during the year ended September 30, 2013. While actual expenditures may be greater than budgeted amounts during the year, the City should amend the final budgeted amounts to exceed actual expenditures. We recommend the City perform a budget to actual reconciliation of year-end amounts within 60 days of year-end to ensure there are no funds with actual expenditures greater than budgeted expenditures.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

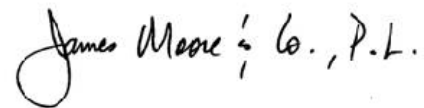
Section 10.554 (1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of 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, 2013.

Section 10.554(1)(i)6.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.

Section 10.554(1)(i)6.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, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.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, 2013.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, City Council others within the City, and applicable management, 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, flowing style.

Daytona Beach, Florida  
January 22, 2014



## **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. We started a training program in order to address this issue. Existing staff is currently preparing all routine entries, and continues to be trained on more complex entries in order to remove the Finance Director from the function of preparing journal entries.

#### **2. Deficit Net Assets and Negative Fund Balances**

The deficit unrestricted net assets in the golf course and tennis center funds will be rectified through a five year plan to make these operations self-sufficient. Negative fund balances in the OKR special assessment and SR100 CRA funds are the result of capital spending in advance of related revenues, and will be satisfied as those revenues become available. The negative fund balance in the transportation impact fee fund will be corrected as part of a budgeted multi-year plan commencing in the fiscal year 2014

#### **3. Expenditures over Budget**

A new review process was put in place in order to identify areas where expenditures may be greater budgeted amounts in the Streets Improvement fund. This process will take place within 45 days of year-end in order to amend the final budget within 60 days of year-end.

Christopher M. Quinn, MACC, CPA, CFE, CGFO, CGMA

Finance Director  
January 22, 2014



**AFFIDAVIT OF IMPACT FEE COMPLIANCE**

The City of Palm Coast, Florida has complied with Section 163.31801 of Florida Statutes regarding accounting and reporting of impact fee collections and expenditures.

Jim Landon, City Manager

Christopher Quinn, Finance Director

STATE OF FLORIDA  
COUNTY OF FLAGLER

I HEREBY CERTIFY that on this day, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Jim Landon and Christopher Quinn, whom I know personally and whom executed the foregoing instrument and acknowledged before me that he executed the same.

WITNESS my hand and official seal in the County and State last aforesaid this 22nd day of January 2014.



(Seal/Stamp)

(Commission Expiration Date)

VIRGINIA A. SMITH  
NOTARY PUBLIC  
STATE OF FLORIDA  
Comm# EE150639  
Expires 1/28/2016

Notary Public  
State of Florida at Large