# CITY OF HALLANDALE BEACH, FLORIDA

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Honorable Mayor, City Commission and City Manager
City of Hallandale Beach Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund (including the Community Redevelopment Agency Fund), and the aggregate remaining fund information of the City of Hallandale Beach, 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 June 8, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Police Officers’ and Firefighters’ Retirement Plan as described in our report on the City’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 opinions 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 deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.
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 entity’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 as items 2010-01 thru 2010-05 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2010-06 to be a significant deficiency.

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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2010-07.

We noted certain other matters that we have reported to management of the City in the attached schedule of findings and questioned costs.

The City’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’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Commission, management, and regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

*Marcum LLP*

Fort Lauderdale, FL
June 8, 2011
MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

The Honorable Mayor, City Commission and City Manager
City of Hallandale Beach, Florida

We have audited the governmental activities, the business-type activities, each major fund (including the Community Redevelopment Agency Fund) and the aggregate remaining fund information of the City of Hallandale Beach, Florida (the City) as of and for the fiscal year ended September 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 8, 2011. We did not audit the financial statements of the Police Officers' and Firefighters' Retirement Plan, which represents 57% and 51%, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as they relate to the amounts included for the Police Officers' and Firefighters' Retirement Plan is based solely upon the report of the other auditors.

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 on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, 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 the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 8, 2011 should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which 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:

- 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 significant findings and recommendations made in the preceding annual financial audit report except as reported in the accompanying summary schedule of prior audit findings.

- 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, our findings and recommendations are incorporated in the accompanying schedule of findings and questioned costs.

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 the 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, our findings and recommendations are disclosed in the accompanying schedule of findings and questioned costs.

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 has made these disclosures in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) 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)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.

Pursuant to Chapter 119, Florida Statutes, this management letter is 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 Mayor, City Commission, management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Fort Lauderdale, FL
June 8, 2011
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

Honorable Mayor, City Commission and City Manager
City of Hallandale Beach, Florida

Compliance
We have audited the City of Hallandale Beach, 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 of 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 on the City’s compliance with those requirements.

In our opinion, the City 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, 2010.

Internal Control over Compliance
Management of the City is responsible for establishing and maintaining effective internal control over compliance with 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.

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 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-10 to be a material weakness.

Schedule of Expenditures of Federal Awards
We have audited the financial statements of the governmental activities, the business-type activities, each major fund (including the Community Redevelopment Agency Fund), and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2010, and have issued our report thereon dated June 8, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

This report is intended solely for the information and use of the Mayor, City Commission, management, 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.

Marcus LLP

Fort Lauderdale, FL
June 8, 2011
<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Grant/Contract Number</th>
<th>Federal Expenditures</th>
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</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Agriculture</strong></td>
<td></td>
<td></td>
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<tr>
<td>Pass-Through Florida Department of Education:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Summer Food Service Program for Children</td>
<td>10.559</td>
<td>04-0995</td>
<td>$ 8,640</td>
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<tr>
<td>Total U.S. Department of Agriculture</td>
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<td>8,640</td>
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<tr>
<td><strong>U.S. Department of Housing and Urban Development</strong></td>
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<tr>
<td>Pass-Through Broward County Community Development Division:</td>
<td></td>
<td></td>
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<tr>
<td>Community Development Block Grant, Urban County Entitlement:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>34th Year – Friends of the Hepburn Center</td>
<td>14.218</td>
<td>N/A</td>
<td>619</td>
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<tr>
<td>After School/Homework Tutorial Program</td>
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<tr>
<td>35th Year – Friends of the Hepburn Center</td>
<td>14.218</td>
<td>N/A</td>
<td>74,686</td>
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<td>After School/Homework Tutorial Program</td>
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<td>34th Year – Public Works Improvements</td>
<td>14.218</td>
<td>N/A</td>
<td>51,170</td>
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<td>35th Year – Public Works Improvements</td>
<td>14.218</td>
<td>10-HFCD-D-CDBG-0004</td>
<td>269,453</td>
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<td>Lift Station Generator</td>
<td>14.218</td>
<td>07-DB-3V-11-16-01-Z08</td>
<td>30,445</td>
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<td>Neighborhood Stabilization</td>
<td>14.218</td>
<td>B-08-UN-12-0002</td>
<td>1,449,507</td>
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<td>Total U.S. Department of Housing and Urban Development</td>
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<td>1,875,886</td>
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<tr>
<td><strong>Federal Highway Administration, Department of Transportation</strong></td>
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<tr>
<td>Pass-Through Florida Department of Transportation</td>
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<tr>
<td>West Hallandale Beach Blvd.-ARRA</td>
<td>20.205</td>
<td>423788-1-58-01</td>
<td>231,057</td>
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<tr>
<td>Total Federal Highway Administration</td>
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<td>231,057</td>
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<tr>
<td><strong>U.S. Department of Justice</strong></td>
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<td></td>
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<tr>
<td>Direct:</td>
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<td>Federal Equitable Sharing Funds</td>
<td>16.000</td>
<td>N/A</td>
<td>656,294</td>
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<td>Bulletproof Vest Grant</td>
<td>16.607</td>
<td>N/A</td>
<td>3,068</td>
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<tr>
<td>Weed &amp; Seed Grant - Palms</td>
<td>16.595</td>
<td>2008-WS-QX-0210</td>
<td>20,980</td>
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<tr>
<td>Weed &amp; Seed Grant - Palms</td>
<td>16.595</td>
<td>2009-WS-QX-0179</td>
<td>130,835</td>
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<td><strong>Subtotal of Direct U.S. Department of Justice</strong></td>
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<td>917,234</td>
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<td><strong>Pass-Through Broward Sheriff's Office:</strong></td>
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<tr>
<td>Edward Byrne Justice Assistance Grant</td>
<td>16.580</td>
<td>BJA-2007-1627</td>
<td>107,360</td>
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<td>Edward Byrne Justice Assistance Grant</td>
<td>16.580</td>
<td>N/A</td>
<td>12,233</td>
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<tr>
<td>Edward Byrne Justice Assistance Grant-ARRA</td>
<td>16.804</td>
<td>2009-SB-B9-3324</td>
<td>54,765</td>
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<td><strong>Subtotal of Pass-Through Broward Sheriff's Office</strong></td>
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<td>174,358</td>
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<td>Total U.S. Department of Justice</td>
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<td>1,091,592</td>
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<td><strong>U.S. Department of Energy</strong></td>
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<tr>
<td>EECBG Grant-ARRA</td>
<td>81.128</td>
<td>DE-EE0002269</td>
<td>164,800</td>
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<tr>
<td>Total U.S. Department of Energy</td>
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<td>164,800</td>
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<tr>
<td>Federal Grantor/Pass-Through Grantor/Program Title</td>
<td>Federal CFDA Number</td>
<td>Grant/Contract Number</td>
<td>Federal Expenditures</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
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<tr>
<td><strong>U.S. Department of Homeland Security</strong></td>
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<tr>
<td>Federal Emergency Management Agency:</td>
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<td></td>
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<tr>
<td>Direct:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Emergency Food &amp; Shelter-ARRA</td>
<td>97.114</td>
<td>N/A</td>
<td>724</td>
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<td>Emergency Food &amp; Shelter</td>
<td>97.024</td>
<td>N/A</td>
<td>1,476</td>
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<td><strong>Subtotal of Direct U.S. Department of Homeland Security</strong></td>
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<td>2,200</td>
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<td>Pass-Through Florida Department of Community Affairs</td>
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<td>CERT Grant 2010</td>
<td>97.067</td>
<td>10-CL-43-11-16-02-306</td>
<td>4,197</td>
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<td>FEMA Flood Mitigation</td>
<td>97.029</td>
<td>07FM-71-11-16-02</td>
<td>265,797</td>
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<td><strong>Pass-Through City of Miramar</strong></td>
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<td>269,994</td>
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<td>Urban Area Security Initiative</td>
<td>97.067</td>
<td>09-DS-48-11-16-02-448</td>
<td>24,060</td>
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<td>Pass-Through Broward County</td>
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<td>FEMA Severe Repetitive Loss Improvement Property Acquisition Project</td>
<td>97.110</td>
<td>SRL-PJ-04-FL-2008-026</td>
<td>213,524</td>
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<td>Pass-Through Florida Division of Emergency Management</td>
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<td>Hazard Mitigation - NE Drainage</td>
<td>97.039</td>
<td>09HM-37-11-16-02-027</td>
<td>91,449</td>
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<td><strong>Total U.S. Department of Homeland Security</strong></td>
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<td>601,227</td>
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<tr>
<td><strong>Total Federal Expenditures</strong></td>
<td></td>
<td></td>
<td>$ 3,973,202</td>
</tr>
</tbody>
</table>

N/A = None available

See accompanying notes to Schedule of Expenditures of Federal Awards.
NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City and is presented on the modified 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the City provided federal awards to sub-recipients as follows:

<table>
<thead>
<tr>
<th>Program Title</th>
<th>CFDA Number</th>
<th>Amount Provided To Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster-Community Development Block Grant - Neighbor Stabilization Program</td>
<td>14.218</td>
<td>$406,663</td>
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</tbody>
</table>
I – PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND STATUS

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2009 Schedule of Findings and Questioned Costs:

Matters that are repeated in the accompanying schedule of findings and questioned costs:

- IC 2007-01 - Post Closing and Financial Reporting Process (revised and included as comment 2010-01)

- ML 09-02 - Evaluation of Allowance for Uncollectible Utilities Accounts Receivable (revised and included in comment 2010-04)

Matters that are not repeated in the accompanying schedule of findings and questioned costs:

- ML 09-01 – Bank Reconciliations

II – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported in prior year.
CITY OF HALLANDALE BEACH, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2010

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:  
Internal control over financial reporting:  
Material weakness(es) identified?  
X Yes ___ No

Significant deficiency(ies) identified not considered to be material weaknesses?

X Yes ___ None Reported

Non-compliance material to financial statements noted?

Yes X No

Federal Awards Programs

Internal control over major awards programs:

Material weakness(es) identified?

X Yes ___ No

Significant deficiency(ies) identified not considered to be material weakness(es)?

Yes X None Reported

Type of auditor’s report issued on compliance for major awards Programs:

Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

X Yes ___ No

Identification of major federal programs:

Federal Program/Cluster  CFDA No.
Federal Equitable Sharing  16.000
Energy Efficiency and Conservation Block Grant  81.128
Program - ARRA
Cluster -Community Development Block Grant  14.218

Dollar threshold used to distinguish between Type A and Type B programs:  $300,000

Auditee qualified as low-risk auditee for Federal Awards?

X Yes ___ No
SECTION II – FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2010-01 Internal Control over Financial Reporting

Criteria

Prudent policies include a formal closing process with supervisory Finance Department personnel being responsible for the review of transactions and balances recorded. Accounting tasks such as monthly reconciliations, cross-checks, and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements.

Conditions

- As a result of our audit procedures, an excessive amount of journal entries (45 journal entries in the current year), some of which were significant, were required to be proposed by the auditors to ensure that the financial statements of the City were not materially misstated and were in accordance with generally accepted accounting principles. Also, there were 18 journal entries provided by the Finance Department that should have been made prior to providing the auditors with final trial balances.

- We noted that, in many instances, schedules requested in our initial planning letter were not readily available at the commencement of our audit engagement. Further, in some instances, amounts reflected on the schedules were not in agreement with the account balances reflected in the general ledger.

Effect

The lack of a proper evaluation of account balances, journal entries and supporting documentation by supervisory Finance Department personnel resulted in material misstatements in amounts recorded on the books and records of the City. The delay in receiving requested schedules, along with subsequent reconciliations, delayed the completion of the audit.

Cause

The causes of the conditions noted above were various. Although supervisory Finance Department personnel performed reviews of schedules and often noted errors that needed correcting, occasionally incorrect entries were accepted as accurate, sometimes due to misinterpretations of researched materials and possibly insufficient staffing levels and training resources.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-01 Internal Control over Financial Reporting (continued)

Recommendation

We recommend a detailed general ledger account analysis of significant balance sheet accounts be performed on a monthly or quarterly basis and reviewed by supervisory Finance Department staff to ensure accurate recording of transactions. This review will also facilitate the preparation of final schedules for use in the audit and financial reporting process. This review should include a review of any subsidiary ledgers to ensure agreement with the general ledger account balance and establishment of any necessary estimates. Finance Department supervisory personnel should also perform an analytical review of account balances with the prior year balances prior to closing the books and records to facilitate determining if significant variances exist, the reasons that support the variance, and if any adjustments are required.

We further recommend that employees responsible for the books and records and approval of journal entries be provided with more thorough training to improve and/or acquire different skills concerning the complexities of accounting, year-end closing procedures, and the preparation of supporting schedules for balances recorded in the general ledger at year-end. This training will lead to employees who are more efficient, effective, and communicative with regard to accounting and financial matters. Also, future financial statements will be more accurate and timely.

Views of Responsible Officials and Planned Corrective Actions

Currently, account analyses of many, though not all, Balance Sheet accounts are performed monthly, with the remainder at least annually. Staff agrees that this procedure needs to be performed more frequently; however staff resources are limited, and therefore will be allocated to the most material or significant tasks and accounts.

As time, funding, and staffing levels allow, training will also be a priority.

2010-02 Pension Benefits

Criteria

The City has the fiduciary responsibility for the General Employees and Professional Management Pension Plans, and as such has overall authority and responsibility for management and oversight of the plans. The City, City Manager or designee, as indicated in each plan
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-02 Pension Benefits (continued)

document, is also the Plan Administrator for each plan, and is responsible for operating the plans in accordance with each plan document, laws, and regulations related to each plan. The administrator’s responsibilities relate to interpretation of plan provisions, determination of participant rights under the plan provisions, management of the plan’s investment assets, and delegation of ongoing plan operation and administrative duties. The Plan Administrator, for both plans, has delegated a portion of its responsibilities to a third party service provider to assist in administering the plans, including calculating benefits that will be paid to a retiree.

As the fiduciary and administrator of each plan, the City should have adequate review and approval procedures in place to ensure that pension benefit calculations are being performed correctly. Additionally, retiree benefit files should be properly maintained with the appropriate documentation as well as evidence indicating the review and approval of benefits. Reconciliations of benefits paid and contributions received should be performed on a monthly basis to ensure that amounts recorded are in agreement with payment registers and other supporting documentation generated by the third party service provider.

Conditions

• The primary audit procedures for benefit payments involve testing payments to selected recipients for eligibility and accuracy of the method and amount of payment. As part of these procedures, for selected payments, we examine approval and supporting documents, test the participant’s eligibility to receive the benefit under each plan’s provisions by examining evidence of age, years or hours of service, and re-compute the benefit amount based on the participant's eligibility and plan provisions. Other procedures include tracing payments to cash disbursements or the trustee’s report of payments and testing the receipt of benefit payments by examining supporting documents, such as canceled checks. While attempting to perform these procedures, we noted that the City does not maintain the level of documentation normally expected in that most files requested to enable us to perform our testing were not readily available. In most instances, files and supporting documentation was provided by the third party administrator and was limited to individuals that retired from the City in the last five years. Information requested was not provided on a timely basis.

• We noted no evidence that monthly and year end reviews and reconciliations of benefits paid to participants, as well as employee contributions are being performed. Although the benefits paid agreed to the investment statements, the amounts recorded as being paid did not agree to the payment registers provided by the third party service provider for the Professional Management Pension Plan.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-02 Pension Benefits (continued)

- We noted no evidence that benefit payment calculations performed by the third party provider are being reviewed by City personnel. As such, City personnel were not able to address questions regarding variances in our recalculations as compared to actual benefits being paid, and all questions had to be addressed by the third party provider.

Effect

The City, as the fiduciary and plan administrator of each plan, could be potentially liable for non-compliance with plan provisions or other issues that may arise.

Cause

City management has indicated that they believe that they can rely on the third party service provider to perform all agreed upon services, including participant recordkeeping, investment processing, determining benefits to be paid and disbursing the actual benefit payments.

Recommendation

We recommend that the City implement a monitoring program to help ensure all fiduciary responsibilities are being met. We further suggest that the City maintain a file for each retiree or beneficiary receiving benefits. Amounts disbursed or contributed on a monthly and annual basis should be reviewed and reconciled to supporting documentation. Additionally, internal control procedures should be implemented by the City to ensure that the information being provided by the third party service provider is accurate and appropriate.

Views of Responsible Officials and Planned Corrective Actions

Once a new retiree enters the system, staff performs the necessary monitoring, computation verifications, etc. Beyond that, staff has relied on the pension administrator firm. We agree that there should be periodic reviews of the computations, and this procedure will be implemented as soon as is practical.

Staff will however work toward retention of retiree files.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-03 Excess Benefit Pension Plan

Criteria

The City, in prior years, had established an Excess Benefit Plan for Professional Management, which is a separate, unfunded, nonqualified defined benefit plan, pursuant to Section 415 of the Internal Revenue Code. GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, established the standards of accounting and financial reporting for pension expenses and related pension liabilities, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. This statement provides that, for defined benefit pension plans, the annual pension cost should be equal to the annual required contribution (ARC) of the employer to the plan for that year, as determined by an actuarial valuation, unless the employer has a net pension obligation to the plan at the beginning of the year. The statement also provides that for financial reporting purposes, an actuarial valuation should be performed at least biennially, except if significant changes have occurred since the previous valuation in benefit provisions, the size or composition of the population covered by the plan, or other factors that affect the results of the valuation.

Condition

We noted that the City has not had an actuarial valuation performed for this excess benefit defined benefit pension plan since the plan was established. Although the plan is considered to be unfunded and is basically a pay as you go plan, the requirements of GASB Statement No. 27 mentioned above are applicable to the plan in relation to recording the pension expense.

Effect

The effect is that the City’s pension expense and liabilities have not been properly reflected in the financial statements. As a result of the first actuarial valuation for the excess benefit plan, a prior period adjustment of approximately $3,705,000 was done to record the net pension obligation as of September 30, 2009. Additionally, an adjustment was needed for the 2010 fiscal year of approximately $1,337,000 to adjust the liability to the correct balance of approximately $2,368,000 as of September 30, 2010.

Cause

City personnel indicated that they believed they did not need an actuarial valuation for this plan since monies were being set aside for future payments in a separate investment account.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-03 Excess Benefit Pension Plan (continued)

Recommendation

We recommend that, in the future, City personnel review GASB reporting standards which may be applicable to the City and determine the appropriateness of reporting.

Views of Responsible Officials and Planned Corrective Actions

The Excess Benefit Plan was being considered as a segment of the Management Benefit Plan. Conflicting authoritative resources both confirmed and refuted this belief. Therefore no separate reporting was anticipated. The City has now engaged the services of the actuary for the Professional/Management Pension Plan to comply with auditor recommendations. Upon receipt of the actuarial results, net pension obligation and other related transactions are now properly reflected in the Financial Statements.

2010-04 Receivables and Allowance for Uncollectible Amounts

Criteria

Receivable schedules should be maintained on a current basis and reconciled monthly to the balance reflected in the general ledger. All receivables should be reviewed and investigated on an ongoing basis to determine validity and collectability, and to ensure that allowances recorded are adequate.

Conditions

- Our review of the Finance Department’s initial allowance calculation for utility receivables indicated that although there was a large increase in receivables outstanding more than 90 days, there was not a significant change in the allowances. We noted that the calculation appeared to be based on receivables outstanding more than 90 days, adjusted by a percentage of liened properties and an overall percentage allocation, for which the methodology could not be provided. The initial allowance calculations provided were not accurate in that the amounts over 90 days did not reconcile to the amounts reflected in the accounts receivable aging reports. Furthermore, we noted that the water fund receivables included the late penalties for all utility funds, rather than reflecting the receivable in each applicable fund. As a result of our inquiries, adjustments were required to increase the allowance by approximately $571,000 among the various enterprise funds.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-04 Receivables and Allowance for Uncollectible Amounts (continued)

- We noted that the amount reflected as a receivable for EMS billings was not in agreement with the reports initially provided by the service providers. We noted that the books and records reflected a receivable balance of approximately $5.6 million, whereas the reports totaled approximately $5.3 million. The allowance for uncollectible amounts was calculated by the Finance Department based on the amounts reflected in the service provider reports. Based upon our inquiries, Finance Department personnel performed an analysis to identify the difference and it was determined that the reports provided by one of the service providers were not accurate, and the receivable balance reflected on the books and records was in fact correct. However, the allowance for uncollectible accounts was understated by approximately $300,000. As such, an adjusting journal entry was provided and recorded by the Finance Department.

- Our review of the Neighborhood Improvement Program loan balances reflected on the books and records disclosed that, in some instances, the balance reflected the total line of credit extended to loan recipients, rather than the amounts actually disbursed. Further, we noted that the allowance for uncollectible amounts for the loans was based on amounts billed and in arrears, rather than the total loan balance. Based on our inquiries, Finance Department personnel researched this matter and provided adjusting journal entries to correct the balances recorded for the receivable and the allowance.

Effect

The effect was that the net receivables and related revenues could have been overstated.

Cause

Reconciliations, as well as the analysis of amounts that should be recorded to reflect receivables at the net realizable value, were not done accurately.

Recommendation

We suggest that reconciliations of subsidiary receivable schedules to the general ledger balances be performed on a monthly basis and that any discrepancies be investigated and resolved immediately. We further suggest that at year end, the allowances recorded be scrutinized closely by supervisory personnel to ensure that all receivables are recorded at their net realizable value.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATURAL WEAKNESSES (CONTINUED)

2010-04 Receivables and Allowance for Uncollectible Amounts (continued)

Views of Responsible Officials and Planned Corrective Actions

Staff agrees that some errors and late entries occurred, due in part to extra workload generated by many additional schedules required by auditors, in part because of differing opinions and interpretations of methodologies, in part due to information not being available to staff at the time of the original entries, and in part due to errors made by staff.

Staff further agrees that improvements can be expected, such as the revised schedule used to calculate allowances for uncollectible utility accounts.

2010-05 Workers’ Compensation Liabilities

Criteria

Governmental Accounting Statements Board (GASB) Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues and GASB Statement No. 30, Risk Financing Omnibus an amendment of GASB Statement No. 10 require entities other than pools to base claims liabilities, including “incurred but not reported” (IBNR) claims, on the estimated ultimate cost of settling the claims. IBNR claims are events that have occurred as of the balance sheet date for which a claim has not yet been reported or asserted and may include known loss events expected to later be presented as claims, unknown loss events expected to become claims, and expected future developments on claims already reported.

Condition

The City is self-insured for general liability and worker’s compensation claims. The liabilities recorded in each respective fund are not determined by actuaries, but rather are determined by City personnel. We noted that the liability recorded for workers’ compensation claims was based on an estimate provided by the City’s risk manager, based on his knowledge of the reported cases. However, we noted that the liability recorded was not the ultimate cost of settling the claims, but was an estimate of the costs that would be paid out in the 2011 fiscal year. As a result of our inquiries, the City, utilizing the loss reports obtained from the third party administrator, determined the ultimate cost of settling the reported claims and provided an adjusting journal entry. We also noted that the liability does not include a calculation of IBNR’s, and we were unable to obtain a calculation of this potential liability, however City personnel indicated it was immaterial.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2010-05 Workers’ Compensation Liabilities (continued)

Effect

The effect is that the expense and liability reflected on the books and records was understated.

Cause

This was the manner in which the City has recorded the liability in the past.

Recommendation

We recommend that the procedures be implemented to ensure that the liabilities reflected for self-insured claims are determined in accordance with the requirements of the applicable GASB pronouncements. City management may want to consider, in the future, retaining an actuary to determine the liabilities that should be recorded for all self-insured areas.

Views of Responsible Officials and Planned Corrective Actions

Staff is now more fully aware of the information being provided, and the required information to be recorded and will collect such information and calculate an IBNR as needed. Staff, however, believes this to be minimal.

SIGNIFICANT DEFICIENCY

2010-6 Capital Assets

Criteria

The establishment and maintenance of accurate accounting records for capital assets are necessary to help assure that the City’s property, plant and equipment are not stolen, misused or subject to undue wear and tear. These records are a necessary element in an on-going governmental capital asset repair and preventative maintenance program and enhance efforts to obtain optimum insurance coverage.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

SIGNIFICANT DEFICIENCY (CONTINUED)

2010-6 Capital Assets (continued)

Conditions

Our audit of the City’s capital asset records for the governmental activities and enterprise funds indicated the following:

- Schedules initially were not prepared for each enterprise fund, but rather, one schedule consolidating all enterprise funds was prepared which did not reconcile to the books and records. Schedules subsequently provided for each enterprise fund detailing the cost, current year depreciation and accumulated depreciation by each capital asset category did not, in all instances, reconcile to the amounts recorded on the City’s books and records. Based on our inquiries, reconciliations were performed, and in most instances, adjusting journal entries were required to correct the recorded balances.

- We noted that detailed schedules to support all capital asset balances, including the cost, current year depreciation and ending accumulated depreciation by asset were not available as of the fiscal year end. Schedules supporting the prior year balances were provided, along with current year addition and deletion schedules. However, the prior year schedules were not accurate and did not reconcile to the amounts reported in the prior year financial statements. We were advised that during the prior two fiscal years, the Finance Department was manually tracking capital assets using an excel spreadsheet rather than the fixed asset module. Information was then input from these spreadsheets into the module; however, information was not input properly resulting in discrepancies. Based on our inquiries, City personnel researched the differences and provided a reconciliation.

- Regarding current year depreciation, schedules were provided which only detailed and calculated the depreciation on “active” assets, and as a result, additional procedures had to be performed to reconcile total assets with “active” assets and fully depreciated assets to ensure that all applicable assets were in fact being depreciated.

- During the course of the 2010 fiscal year, the Finance Department determined that certain assets that were recorded as governmental activities capital assets should be enterprise fund capital assets, and certain enterprise fund capital assets should be governmental activities capital assets. We noted that Finance Department personnel, in attempting to correct the recording of these assets, incorrectly recorded transactions in the governmental funds and the enterprise funds. We advised Finance Department personnel of these errors and provided adjustments to accurately record these transactions.
Section II – Financial Statement Findings (continued)

Significant Deficiency (continued)

2010-06 Capital Assets (continued)

Effect

Capital asset records which are not reliable could result in inaccurate financial reporting.

Cause

The cause is a lack of oversight and procedures to ensure that capital asset records are properly maintained and reconciled to the amounts reflected in the books and records.

Recommendation

Supervisory staff of the Finance Department should be taking an active role in the oversight of the record maintenance and reporting in this area since the City’s net capital assets as of September 30, 2010, were in excess of $100 million. We recommend that work performed by personnel in the Finance Department be reviewed by supervisory personnel on a monthly basis to ensure that all assets above the capitalization threshold are captured and properly recorded in the records. A reconciliation should be performed to ensure the subsidiary ledgers, whether manual spreadsheets or software, are in agreement to the amounts reflected on the general ledger. Furthermore, the supporting records for the enterprise funds should clearly segregate the capital assets and accumulated depreciation by fund to facilitate the reconciliation to the amounts recorded.

Views of Responsible Officials and Planned Corrective Actions

Staff disagrees that schedules to support capital asset information were unavailable. Because of unsatisfactory schedules in previous years, it has been an on-going task to review and correct asset recordings, with parallel systems being run to confirm accuracy. For example, one asset was found to have been disposed of in both 2007 and 2009, due to the receipt of duplicate disposal forms. To prevent such an occurrence, supervisor must confirm by signature that asset is still active before disposal entries are recorded.

Staff has been performing periodic partial Fixed Asset inventories. A complete inventory of all vehicles and higher-cost equipment is scheduled to occur this summer.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

NONCOMPLIANCE

2010-07 Investment Policies – General Employees and Professional Management Pension Plans

Criteria

Pursuant to 112.661, Florida Statutes, investments of the assets of any local retirement system or plan must be consistent with a written investment policy adopted by the Board. Such policies should be constructed to maximize the financial return to the plan consistent with the risks incumbent in each investment and shall be structured to establish and maintain an appropriate diversification of the plan’s assets. The statute further delineates seventeen elements which shall be included in the investment policies.

Condition

Our review of the investment policies for the plans, both of which are dated in 2004, do not include several of the elements delineated in the Statutes. We noted that some of the elements not included in the policies included performance measurement, maturity and liquidity requirements, guidelines for limits on security issues, issuers and maturities, expected annual rate of return, internal control procedures, and continuing education procedures.

Effect

Non-compliance with Florida Statutes.

Cause

This noncompliance was caused by the lack of a review of the policy by City personnel to ensure compliance with the Florida Statutes.

Recommendation

We recommend that the investment policies for each plan be updated and revised to incorporate all required elements delineated in Chapter 112.661 of the Florida Statutes.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2010-07 Investment Policies – General Employees and Professional Management Pension Plans (continued)

Views of Responsible Officials and Planned Corrective Actions

Statute 112.661 did not exist prior to 2000 and was updated in 2009. The current investment policies, which were written in 1994, were nevertheless in compliance with the 2000 statute which only specified that “Investment of the assets of any local retirement system or plan must be consistent with a written investment policy adopted by the board. --The investment policy shall describe the investment objectives of the board. (a) The investment policy shall list investments authorized by the board”.

Staff will be updating the policies, to comply to the new statute sections added in 2000 and 2009.

CONTROL DEFICIENCIES

2010-08 Utility Billing Adjustments

Criteria

In the absence of built in controls within the Utility System to limit the level of unsupervised adjustments, supervisory review of adjustments made to customer accounts should be undertaken as an internal control best practice.

Condition

While performing our walk through of the utility system, we noted that adjustments to customer utility accounts are often made by the Utility Billing Specialist, and are not always subject to management oversight to verify accuracy and validity.

Effect

Lack of proper management review or approval of adjustments to customer accounts by the Utility Billing Specialist increases the risk for potential fraud to occur.

Cause

Based on discussions with City personnel, it was noted that the Comptroller only gets involved or reviews an adjustment in extraneous circumstances or when management input is specifically requested.
SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

CONTROL DEFICIENCIES (CONTINUED)

2010-08 Utility Billing Adjustments (continued)

Recommendation

We recommend that the City develop policies and procedures to ensure that there is a supervisory level of reviews and approvals done for adjustments made to customer utility accounts to ensure the accuracy and validity of the adjustments being posted. Controls should address approval for credits and adjustments over a specified dollar threshold as well as a review of credits or adjustments on a frequent basis (weekly or monthly) based on the number of adjustments made each year.

Views of Responsible Officials and Planned Corrective Actions

Although the Comptroller previously reviewed all extraordinary adjustments and others by spot-checking, she has now instituted the procedure of initialing the adjustment reports on a daily basis.

2010-09 Information Technology Policies and Controls

Criteria

Information technology policies and procedures, including the data backup process, provide the framework for the City’s security over electronic data. Documented IT policies and procedures ensure standardized activities and reduces the risk of errors and/or unauthorized activities.

Condition

Our review of the procedures and polices followed by the IT Department indicated that certain policies are not formally documented for IT related processes and controls.

Effect

The lack of documentation to support all policies and procedures creates the risk that processes and controls are not performed appropriately increasing the risk of errors.

Cause

The lack documentation to support all policies is due to the size of the IT Department. Being a small team, they rely on verbal communication and understanding of policies and procedures.
SECTION II — FINANCIAL STATEMENT FINDINGS (CONTINUED)

CONTROL DEFICIENCIES (CONTINUED)

2010-09 Information Technology Policies and Controls (continued)

Recommendation

The IT Department should ensure that all policies are formally documented and enforced, and accessible all department staff.

Views of Responsible Officials and Planned Corrective Actions

Staff believes that this comment results from a miscommunication. IT has always ensured that all policies are documented and enforced. However, due to the large quantity of documentation located in several file folders on the file server, it may on occasion take some time to locate needed documentation. IT will consolidate all IT policies and procedures into a Policy Manual and an Operations Manual to improve the organization of the information, making it easier for departmental staff to locate and access pertinent documentation.”

SECTION III—FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS

2010-10 Schedule of Expenditures of Federal Awards Preparation and Completeness

Criteria

Pursuant to the Federal Single Audit Act, non-federal entities that expend more than $500,000 in federal funds in a year are required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Circular A-133 requires that the auditor determine whether the Schedule of Expenditures of Federal Awards (SEFA) is presented fairly in all material respects in relation to the auditee’s financial statements taken as a whole. Additionally, pursuant to paragraph 6 of the Annual Equitable Sharing Agreement and Certification, audits are to be conducted as provided by the Single Audit Act and OMB Circular A-133.

Conditions

The SEFA originally provided by the City at the commencement of single audit fieldwork was not correct. The following conditions were noted:
SECTION III—FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

MATERIAL WEAKNESS (CONTINUED)

2010-10 Schedule of Expenditures of Federal Awards Preparation and Completeness (continued)

- The SEFA did not include the expenditures for the Equitable Sharing Program. Our review of the Equitable Sharing Fund expenditures per the general ledger indicated that the total 2010 expenditures under the Department of Justice forfeiture program totaled approximately $656,000.
- We noted that the expenditures for the Neighborhood Stabilization Program were understated by approximately $127,000.

Effect

The omission of expenditures for these federal programs resulted in the initial SEFA provided being materially misstated.

Cause

Based on discussions with the City’s Finance Director regarding the Equitable Sharing Program, the City’s finance personnel were unaware of the requirement to include amounts received under the forfeiture program as part of the SEFA. Regarding the Neighborhood Stabilization Program, the omission was due to program expenditures being coded to the incorrect general ledger accounts, which caused them to be excluded from the SEFA.

Questioned Costs

None.

Recommendation

We recommend that, in the future, federal agreements and guidelines be carefully reviewed and if necessary, confirmations should be obtained from grantor agencies to assist in determining whether funds received are susceptible to being reported on the SEFA. We also recommend that the underlying records used to prepare the SEFA be properly reconciled and reviewed by management for accuracy and completeness prior to preparation of the SEFA.

Views of Responsible Officials and Planned Corrective Actions

Staff, though unaware previously that the Equitable Sharing Program should be considered a “grant” for SEFA purposes, is now including it in the SEFA for 2010 and forward.
SECTION III—FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

MATERIAL WEAKNESS (CONTINUED)

2010-10 Schedule of Expenditures of Federal Awards Preparation and Completeness (continued)

The Neighborhood Stabilization Program, staff agrees with the changes, and will work with the responsible department to ensure that all transactions are coded to the appropriate accounts to ensure accuracy of reporting
CITY OF HALLANDALE BEACH, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED SEPTEMBER 30, 2010

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Grant/Contract Number</th>
<th>Federal Expenditures</th>
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<td>Pass-Through Florida Department of Education:</td>
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<td>Summer Food Service Program for Children</td>
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<td>Pass-Through Broward County Community Development Division:</td>
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<td>Community Development Block Grant, Urban County Entitlement:</td>
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<td>34th Year – Friends of the Hepburn Center</td>
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