

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and  
City Commissioners  
*City of Winter Springs, Florida*

We have audited the basic financial statements of the *City of Winter Springs, Florida*, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 25, 2005. 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.

**Compliance** - As part of obtaining reasonable assurance about whether the *City of Winter Springs, Florida's* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *City of Winter Springs, Florida*, in a separate letter and dated January 25, 2005.

**Internal Control Over Financial Reporting** - In planning and performing our audit, we considered the *City of Winter Springs, Florida's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Management of the *City of Winter Springs, Florida*, in a separate letter dated January 25, 2005.

MCDIRMIT DAVIS & COMPANY, LLC  
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801  
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MCDIRMITDAVIS.COM

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

*McDermitt Davis & Company, LLC*

January 25, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

The Honorable Mayor and City Commissioners  
City of Winter Springs, Florida  
Winter Springs, Florida

Compliance

We have audited the compliance of the City of Winter Springs, Florida with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to the major federal program for the year ended September 30, 2004. The City of Winter Springs' major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state project is the responsibility of the City of Winter Springs, Florida management. Our responsibility is to express an opinion on the City of Winter Springs, Florida 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 City of Winter Springs, Florida 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 of Winter Springs, Florida compliance with those requirements.

In our opinion, the City of Winter Springs, Florida, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2004.

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### Internal Control Over Compliance

The management of the City of Winter Springs, Florida 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 of Winter Springs, Florida internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management of the City, the Auditor General of the State of Florida and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*McDiarmid Davis & Company, LLC*

January 25, 2005

CITY OF WINTER SPRINGS, FLORIDA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program title</u>	<u>Federal CFDA No.</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
U. S. Department of Homeland Security: Federal Emergency Management Agency Public Assistance Grants	97.036	-	\$4,940,706
U.S. Federal Emergency Management Agency: Assistance to Firefighters Grant	83.554	-	22,029
U. S. Department of Justice: Office of Community Oriented Policing Services- Homeland Security Overtime Program	16.710	-	36,018
Universal Hiring Award	16.710	-	78,870
Office of Justice Programs- Bulletproof Vest Partnership Local Law Enforcement Block Grant	16.607	-	1,909
	16.592	-	<u>13,143</u>
Total U.S. Department of Justice			<u>129,940</u>
U.S. Department of the Interior: Pass-through program from Florida Department of Environmental Protection Land and Water Conservation Program	15.916	12-00442	<u>200,000</u>
Total expenditures of federal awards			<u>\$5,292,675</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF WINTER SPRINGS, FLORIDA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2004

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Winter Springs, 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF WINTER SPRINGS, FLORIDA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL AWARDS**

Year Ended September 30, 2004

**A. Summary of Auditor's Findings**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Winter Springs, Florida.
2. No instances of noncompliance material to the financial statements of the City of Winter Springs, Florida were disclosed during the audit.
3. The auditor's report on compliance for the major federal award for the City of Winter Springs, Florida, expresses an unqualified opinion.
4. The program tested as major program included the following:

<b><u>Federal Program</u></b>	<b><u>CFDA No.</u></b>
U.S. Department of Homeland Security Public Assistance Grant	97.036

5. The threshold for distinguishing Type A and Type B programs/projects was \$500,000 for major federal awards.

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**MANAGEMENT COMMENTS**

Honorable Mayor and City Commission  
*City of Winter Springs, Florida*

In planning and performing our audit of the basic financial statements of the *City of Winter Springs, Florida*, for the year ended September 30, 2004, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. The following findings and recommendations, which resulted from our consideration of internal control, are submitted to assist in improving procedures and controls. In addition, this report includes other disclosures required by Rules of the Auditor General, State of Florida.

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. We have issued our Report on Compliance and Internal Control over Financial Reporting, in accordance with *Government Auditing Standards*, Report on Compliance and 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 25, 2005, should be considered in conjunction with this management letter.

This management letter is intended solely for the information of the *City of Winter Springs, Florida* and management, and the State of Florida Office of the Auditor General and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*McDirmit Davis & Company, LLC*

January 25, 2005

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A. Status of Prior Year Comments

1. Utility Billing Credits

During 2003, the City implemented many procedures to strengthen internal controls over cash receipts. One of these procedures is that the controller reviews both reversal approval logs and refund and reversal batches to make sure they are proper. However, no one is approving credits or reversals made by the utility services department. The MUNIS system does not currently provide a report with the name of the customer so that repetitive credits to a particular customer could be identified.

Recommendation

We recommend that the City implement a procedure where all credits must be approved by the utility services manager. We would also suggest that the utility services manager not be able to issue credits. In addition, the City should request from MUNIS an enhancement of the existing credit report to show the customer's name.

Corrective Action

During 2004 the credit report was revised to include the customers name. Also credits done by the utility services manager are approved by the controller. No further comment is required.

2. Bond Compliance

As noted in the previous years comments, the City has not met the requirement that at least 85% of the Improvement Refunding Revenue Bonds, Series 1999, proceeds be expended within three years of the issue date of July 8, 1999. At September 30, 2003, approximately 80% of bond proceeds had been spent.

Recommendation

We recommend that the City continue to invest remaining proceeds only at a yield restricted to bond yield rate and commit to spend the remaining proceeds as soon as possible.

Corrective Action

The City only spent \$26,019 in 2004. Therefore, we will repeat this comment under current year comments.

3. Grant Expenditures

During the 2003 fiscal year, the City received grants for Torcaso Park improvements from both Seminole County and the State of Florida. The requests for reimbursements to the county and the state included some duplicate expenses. This mistake occurred because of a misunderstanding of the match requirements for the State of Florida FRDAP grant. There were additional expenditures relating to Torcaso Park which were not included on the original request for reimbursement that are eligible under the FRDAP grant, and the City will submit a revised schedule including these additional expenditures to the state. Therefore, we will not report this in the Schedule of Findings and Questioned Costs - State Project since we do not believe this mistake will result in the City having to refund grant funds in an amount that would be material to the major state project.

Recommendation

We recommend that the Finance Department obtain additional training in grant compliance to insure that grant requests for reimbursement are properly prepared.

Corrective Action

During 2004, the City implemented project accounting where all costs associated with a project are captured in one place. This should prevent duplicate expenses being reported for two different grants.

B. Current Year Comments

1. Bond Compliance

As noted under prior year comments, the City has not met the requirement that at least 85% of the Improvement Refunding Revenue Bonds, Series 1999, proceeds be expended within three years of the issue date of July 8, 1999. At September 30, 2004, approximately 80% of bond proceeds had been spent.

Recommendation

We recommend that the City continue to invest remaining proceeds only at a yield restricted to bond yield rate and commit to spend the remaining proceeds as soon as possible.

C. Comments Required by the Rules of the Auditor General

1. The financial report filed with the Department of Banking and Finance pursuant to Section 218.32(1)(b), Florida Statutes, is in agreement in all material respects with the annual financial audit report for the same period.
2. The City is not, or during the fiscal year was not, in a state of financial emergency as a consequence of conditions described in Section 218.503(1) Florida Statutes.
3. The City of Winter Springs, Florida was created by the Laws of Florida 59-1614. There were no component units identified by the City.
4. The City of Winter Springs, Florida has complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
5. As required by the Rules of the Auditor General, Section 10.554 (g)(6)c and 10.556(8), we applied financial condition assessment procedures.



**CITY OF WINTER SPRINGS, FLORIDA**

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1126 EAST STATE ROAD 434  
WINTER SPRINGS, FLORIDA 32708-2799  
Telephone (407) 327-1800

March 1, 2004

McDermitt, Davis & Company, LLC  
605 E. Robinson Street, Suite 635  
Orlando, Florida 32801

Dear Sir or Madam:

Your management comment related to fiscal year ended September 30, 2004 was well received by both the City Manager and the Finance Department. The comment represents an opportunity for improvement, which will be pursued in fiscal year 2005. Below is our response to your management comment as required by the Rules of the Auditor General of the State of Florida.

Bond Compliance

We concur with the recommendation. Funds are currently in essence "yield restricted" due to the investment environment. Construction delays unfortunately came into play; however, the City is committed to spending the remaining bond proceeds as soon as possible and will make every effort to do so.

Sincerely,

A handwritten signature in black ink that reads "Ronald W. McLemore".

Ronald W. McLemore  
City Manager

A handwritten signature in black ink that reads "Michelle Greco".

Michelle Greco  
Finance Director

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