

## **OTHER REPORTS**

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

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

We have audited the financial statements of *City of Winter Springs, Florida*, as of and for the year ended September 30, 2009, and have issued our report thereon dated February 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

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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*.

We noted certain matters that we reported to management of the *City of Winter Springs* in a separate letter dated February 19, 2010. The City's response to our findings identified in our audit is included in this report. We did not audit the City's response, and accordingly, we express no opinion on it.

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*

February 19, 2010

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

The Honorable Mayor and City Commissioners  
*City of 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, 2009. The *City of Winter Springs's* 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 federal programs are 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, 2009.

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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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the *City of Winter Springs, Florida's* internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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.

*McDermitt Davis & Company, LLC*

February 19, 2010

CITY OF WINTER SPRINGS, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program Title Federal Awards</u>	<u>Federal CFDA No.</u>	<u>Grant Number</u>	<u>Reimbursable Expenditures</u>
U.S. Department of Agriculture: Natural Resources Conservation Service*	10-904	69-4209-8-1680 69-4209-9-1705	\$302,680 <u>171,627</u> 474,307
U.S. Department of Homeland Security: FEMA Disaster Grant	97.036	-	22,899
U.S. Department of Justice: Passed through Florida Department of Law Enforcement: Edward Byrne Justice Assistance Grant	16.738	-	<u>10,803</u>
Total Federal Awards			<u>\$508,009</u>

- Denotes a major program

CITY OF WINTER SPRINGS, FLORIDA

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

Year Ended September 30, 2009

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 and *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**

Year Ended September 30, 2009

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the *City of Winter Springs, Florida*.
2. There were no significant deficiencies relating to the audit of the financial statements reported in the 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*.
3. No instances of noncompliance material to the financial statements of the *City of Winter Springs, Florida* were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Federal Program and On Internal Control Over Compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award for the *City of Winter Springs, Florida*, expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the *City of Winter Springs, Florida* are reported in Part C of this schedule.
7. Major federal program identified on the Schedule of Expenditures of Federal Awards is as follows:

**Federal Programs**

**CFDA No.**

U. S Department of Agriculture

10.904

8. The threshold for distinguishing Type A and Type B programs/projects is \$300,000.
9. The *City of Winter Springs, Florida* did not qualify as a low risk auditee.

**B. Findings-Financial Statement Audit**

None reported.

**C. Findings and Questioned Costs-Major Federal Awards Programs and State Projects**

None reported.

**MANAGEMENT LETTER**

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

We have audited the financial statements of the *City of Winter Springs, Florida*, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated February 19, 2010.

We conducted our audit in accordance with United States generally accepted auditing standards; 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 Report on Internal Control over Financial Reporting and on Compliance and Other Matters, as well as the Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, which are dated February 19, 2010 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 govern the conduct of local governmental entity audits performed in the State of Florida, and unless otherwise required to be reported in the report on compliance and internal controls, this letter is required to include the following information.

- 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 significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been corrected, as detailed in the accompanying pages.
- 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 of Winter Springs, Florida* 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 findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have some comments, which are discussed in the accompanying page.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse 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.

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- Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed 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 of Winter Springs, Florida* 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 of Winter Springs, Florida* for the fiscal year ended September 30, 2009, 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, 2009. We determined that these two reports are in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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 management letter is intended solely for the information of the *City of Winter Springs, Florida* and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*McDiernit Davis & Company, LLC*

February 19, 2010

CITY OF WINTER SPRINGS, FLORIDA

**COMMENTS AND RECOMMENDATIONS**

**STATUS OF PRIOR YEAR COMMENT**

Year Ended September 30, 2009

1. Appropriations in Excess of Funds Available

Appropriations for the Road Improvements Special Revenue Fund and Hazard Mitigation Capital Projects Fund were in excess of anticipated revenue and prior years' fund balance

Recommendation

Procedures should be in place for annual budget amendments where appropriations do not exceed anticipated revenue and prior years' fund balance.

Corrective Action

City has corrected procedures and properly amended budgets.

CITY OF WINTER SPRINGS, FLORIDA

COMMENTS AND RECOMMENDATIONS

CURRENT YEAR COMMENTS

Year Ended September, 30, 2009

1. Segregation of Duties Over Payroll Processing

We noted that the same person inputs employee hours worked, prints payroll reports, sends payroll information to the bank for disbursement, and has ability to change employee pay rates in the system without review of detailed payroll registers.

Recommendation

We recommend that the finance director run an audit report in the system to verify that the only changes to pay rates are authorized by Human Resources. We also recommend that a second employee verify that the employees' time entered into the system equals the time cards submitted. Finance director should review payroll register prior to submittal to the bank.



CITY OF WINTER SPRINGS, FLORIDA

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

March 22, 2010

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, 2009 was well received by both the City Manager and the Finance Department. The comment represents an opportunity for improvement to be pursued during fiscal year 2010. Below is our response to your management comment as required by the Rules of the Auditor General of the State of Florida.

Segregation of duties over payroll processing:

As mentioned in your Management Letter the payroll accountant inputs employee hours worked, prints payroll reports, sends payroll information to the bank for disbursement and has ability to change employee pay rates in the system without review of detailed payroll registers.

The auditor recommendation is to have the Finance Director run an audit report in the system to verify that the only changes to pay rates are those that have been authorized by Human Resources. It was further recommended that a second employee verify that time entered into the system reflects the submitted time cards and that the Finance Director should review payroll register prior to submission to the bank.

Due to the City's relative small scale, management acknowledges that segregation of duties represents a challenge. It has been determined that an exception report will be developed and implemented in order to identify pay rate changes from one pay period to the next. The veracity of all such changes will be authenticated by Human Resources. Furthermore, a software initiative known as *Munis Employee Self Service* is currently being pursued. It includes a *Time and Attendance* module which will serve to decentralize the input of employee hours worked. Training is anticipated for the April 2010 timeframe with a June 2010 implementation date. The approval process related to 'time card' submission will be designed to ensure that the time entered into the system reflects that which was submitted to the payroll accountant.

Sincerely,

Kevin Smith  
City Manager

Kelly Balagia  
Interim Finance Director

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of the *City of Winter Springs, Florida* for the year ended September 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 1, 2009. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the *City of Winter Springs, Florida* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred, except for the prior period adjustment for impact fee credits discussed in Note 2 to the financial statements.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statement were:

Management's estimate for the allowance for doubtful account is based on historical loss levels, and an analysis of the individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for the allowance for depreciation is based on the estimated useful lives of the capital assets. We evaluated the reasonableness of the useful lives as well as the depreciation methods in determining that it is reasonable in relation to the financial statements taken as a whole.

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### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole, except for the prior period adjustment for impact fee credits discussed in Note 2 to the financial statements.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 19, 2010.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the 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.

Very truly yours,

*McDermitt Davis & Company, LLC*

February 19, 2010



**CITY OF WINTER SPRINGS, FLORIDA**

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March 22, 2010

**AFFIDAVIT OF IMPACT FEE COMPLIANCE**

Impact Fees are assessed in accordance with Chapter 9: Land Development, Article VIII Impact Fees, of the City of Winter Springs Code of Ordinances. Impact fee collections, expenditures and accounting are provided for in separate accounting funds and comply with Florida Statute 163.31801.

A handwritten signature in cursive script that reads "Kelly Balagia".

Kelly Balagia  
Interim Finance Director