AUDITOR GENERAL
STATE OF FLORIDA

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Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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October 7, 2011

Senator Jim Norman, Chair
Joint Legislative Auditing Committee
111 West Madison Street, Room 876
Tallahassee, Florida 32399-1400

Dear Senator Norman,

Section 11.45(2)(j), Florida Statutes, requires us to, no later than 18 months after the release of a report on the audit of a local governmental entity, perform such appropriate follow-up procedures as deemed necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. This correspondence is to notify you of the results of our follow-up procedures conducted to determine Flagler County's progress in addressing findings in our report No. 2009-194.

We inquired of the Flagler County Board of County Commissioners and the Clerk of the Circuit Court regarding actions taken to address the findings in report No. 2009-194. Responses to our inquiries, and documentation obtained in support of the responses, provided the basis for our determinations. Based on the procedures applied, we concluded that of the 11 findings included in report No. 2009-194, Flagler County's actions corrected 9 findings and partially corrected 1 finding. Flagler County had no occasion to correct 1 finding. The table below indicates the status for each finding.

#	Finding	Status of Finding		
		Corrected	Partially Corrected	No Occasion to Correct
1	Use of Restricted Resources	X		
2	Capital Budget Preparation & Adoption		X	
3	Capital Budget Monitoring	X		
4	Payment Processing	X		
5	Construction Contract Monitoring & Administration			X
6	Written Policies & Procedures	X		
7	Fraud Policies & Procedures	X		
8	Reporting of Checks Issued from County Depository	X		
9	Employment Agreements	X		
10	Public Records Request	X		
11	Preparation of Board Meeting Minutes	X		
	Totals	**9**	**1**	**1**

Attachment A provides additional details for the finding that Flagler County had an occasion to correct, but only partially corrected. Attachment B provides the response concerning this finding from the Flagler County Board of County Commissioners. Please advise if you or your staff have any questions regarding this information.

The Auditor General follow-up procedures performed were conducted in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

Please address inquiries regarding these matters to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-4413.

Sincerely,

David W. Martin, CPA
Auditor General

Attachment

c: Kathy DuBose, Staff Director, Joint Legislative Auditing Committee
Flagler County Board of County Commissioners
Flagler County Clerk of the Circuit Court

Capital Budget Preparation and Adoption

Previously Reported

The Flagler County Board of County Commissioners (Board) adopted the budget for its major capital projects at the fund level, limiting its control at the project level. Also, budget amendments were adopted at the sub-object code level rather than at the level originally adopted. Additionally, amounts brought forward from prior fiscal years were overstated for the 2005-06 and 2006-07 fiscal years, and capital budget control procedures did not ensure that capital budgets were amended to show the actual fund balances available from prior fiscal years when those amounts were known. Further, the County Administrator could enhance the policies and procedures regarding the capital projects budgetary process.

Results of Follow-Up Procedures

The Board's actions partially corrected this finding. As to the recommendations for this finding, the results of our follow-up procedures disclosed:

We recommended that the Board separately adopt annual operating budgets, capital budgets, and capital programs. In doing so, we recommended that the Board consider adopting project-level budgets for major capital projects. The adopted budget resolutions for the 2009-10 and 2010-11 fiscal years referred to "Schedule A" which provided the detail by fund, by function. As also noted in report No. 2009-194, on the County's Web site, within the 2009-10 and 2010-11 fiscal year budgets, the County included a Capital Projects section that detailed total budgets by project. However, there were no capital budgets or project-level budgets formally adopted by the Board. Quarterly update reports to the Board provided the budget for the current year with the actual amounts expended by project for the current year. As a result, although the Board is provided information by project, it did not formally adopt capital or project-level budgets. *The Board's actions did not correct this portion of the finding.*

We recommended that the Board ensure that budget amendments are adopted at the same level as the original budget. Budget amendments during the follow-up period included a Schedule A, which amended the budgets as adopted; however, they also contained a Schedule B which provided detail at the sub-object level, with explanations as to why the budgets were amended. The detail provided in Schedule B included some project numbers but were not arranged to detail the entire project budget, what was amended, and the resulting total project budgets. As it appears that Schedule B was intended to simply provide more detail to the Board regarding the amendments indicated in Schedule A, and Schedule A was at the same level as the adopted budget, *the Board's actions adequately corrected this portion of the finding.*

We recommended that the Board ensure that "undesignated" amounts are budgeted as reserves for future construction rather than as expenditures. A review of the 2009-10 and 2010-11 fiscal year budgets disclosed no instances where the County used the terminology "undesignated;" rather, the budgets indicated amounts for "reserves/contingency." As a result, *the Board's actions adequately corrected this portion of the finding.*

We recommended that the County Administrator consider incorporating Government Finance Officers Association-recommended budgetary practices, institute a procedure that ensures amendment of the budget when final amounts from the prior fiscal year differ from the estimates used in preparing the initial budget, and provide the Board with project-to-date expenditure data for multi-year projects. Several new budgetary practices were adopted during the follow-up period. Further, although budget amendments were adopted to adjust prior year balances brought forward, we found material differences in most fund types, although the countywide total was materially correct. The Board receives project-to-date expenditure data and up to five years in the estimated budget as part of the budget adoption process. During the year, the Board receives quarterly status reports that show current year budget and actual current year expenditures by project. Thus, *the Board's actions partially corrected this portion of the finding.*

Administration
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FLAGLER COUNTY
FLORIDA

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September 30, 2011

Mr. David W. Martin, CPA
Auditor General
State of Florida
Post Office Box 1735
Tallahassee, Florida 32302

Dear Mr. Martin:

Thank you for the opportunity to respond to the follow up procedures perfomed by your office pursuant to the provisions of Section 11.45(2)(j), Florida Statutes in connection with your audit of the Flagler County Government Center Capital Project. This response is offered pursuant to the provisions of Section 11.45(4)(d), Florida Statutes which provide for a "written statement of explanation or rebuttal concerning all of the findings, including corrective action to be taken to preclude a recurrence of all findings." In order to make the process more efficient, I will begin by restating the recommendation and status in full, followed by our original and updated responses.

Audit Report Finding Number	
2	**Capital Budget Preparation and Adoption**

Previously Reported: The Flagler County Board of County Commissioners (Board) adopted the budget for its major capital projects at the fund level, limiting its control at the project level. Also, budget amendments were adopted at the sub-object code level rather than at the level originally adopted. Additionally, amounts brought forward from prior fiscal years were overstated for the 2005-06 and 2006-07 fiscal years, and capital budget control procedures did not ensure that capital budgets were amended to show the actual fund balances available from prior fiscal years when those amounts were known. Further, the County Administrator could enhance the policies and procedures regarding the capital projects budgetary process.

Results of Follow-Up Procedures: The Board's actions partially corrected this finding. As to the recommendations for this finding, the results of our follow-up procedures disclosed:

We recommended that the Board separately adopt annual operating budgets, capital budgets, and capital programs. In doing so, we recommended that the Board consider adopting project-level budgets for major capital projects. The adopted budget resolutions for the 2009-10 and 2010-11 fiscal years referred to "Schedule A" which provided the detail by fund, by function. As also noted in report No. 2009-194, on the County's Web site, within the 2009-10 and 2010-11 fiscal year budgets, the County

Audit Report Finding Number	
2	included a Capital Projects section that detailed total budgets by project. However, there were no capital budgets or project-level budgets formally adopted by the Board. Quarterly update reports to the Board provided the budget for the current year with the actual amounts expended by project for the current year. As a result, although the Board is provided information by project, it did not formally adopt capital or project-level budgets. The Board's actions did not correct this portion of the finding.

Original Response: We have provided the auditors with excerpts from the adopted fiscal year 2004-05, 2005-06, and 2006-07 budget documents. The adopted budget document includes operating budgets, capital budgets and a five-year capital improvement program. In addition, the adopted budget document, at least for fiscal years beginning with 2005-06, includes details of the budget both by line item as well as by major capital project. While it is true that the resolution adopting the budget for each of the fiscal years included contained an exhibit detailing the amount budgeted in total by fund, in actuality, the budget document used for the purpose of populating the financial accounting management information system was created both at the line item, as well as individual project level. In the future, we will modify the resolution to adopt the budget, so that it incorporates, by reference, the adopted budget document including the detailed information available therein.

Updated Response: We continue to believe that the budget adoption process adequately addresses our auditor's concerns.

We recommended that the Board ensure that budget amendments are adopted at the same level as the original budget. Budget amendments during the follow-up period included a Schedule A, which amended the budgets as adopted; however, they also contained a Schedule B which provided detail at the sub-object level, with explanations as to why the budgets were amended. The detail provided in Schedule B included some project numbers but were not arranged to detail the entire project budget, what was amended, and the resulting total project budgets. As it appears that Schedule B was intended to simply provide more detail to the Board regarding the amendments indicated in Schedule A, and Schedule A was at the same level as the adopted budget, the Board's actions adequately corrected this portion of the finding.

Original Response: As discussed in great detail with the auditors both verbally and in writing, the budget is adopted (as memorialized in the adopted budget document and not in the resolution adopted by the Board of County Commissioners) at both the project level as well as the line item level. Amendments to the budget have historically been approved at the same level of detail as the adopted budget document. We believe that we have historically adopted and amended the budget at the same level of detail which is the line item/project level. Again, the only change we will contemplate with regard to this specific recommendation is that the resolution memorializing the final adoption of the budget will be modified to incorporate, by reference, the adopted final budget document including the detailed information available therein.

Audit Report Finding Number 2

Updated Response: Since, as noted by the auditors "the Board's actions adequately corrected this portion of the finding", no additional response is necessary.

We recommended that the Board ensure that "undesignated" amounts are budgeted as reserves for future construction rather than as expenditures. A review of the 2009-10 and 2010-11 fiscal year budgets disclosed no instances where the County used the terminology "undesignated;" rather, the budgets indicated amounts for "reserves/contingency." As a result, the Board's actions adequately corrected this portion of the finding.

Original Response: Reserves for future construction are authorized pursuant to the provisions of Section 129.02(4)(a), Florida Statutes which states in part as follows: "It (the capital outlay reserve fund budget) may contain also an estimate for the reserves as hereinbefore provided and for a reserve for future construction and improvements." We are familiar with this statutory provision, however, given our position that the budget is controlled both at the line item level as well as the project level, it would appear that there might be alternative means of reaching the same objective which in the case of utilizing the "undesignated" project is to set aside funds which are carried forward to projects from the prior fiscal year to the current fiscal year and which acts as a control (or should act as a control) to prevent additional expenditures against those projects in the prior fiscal year. To that end, as long as we are able to control expenditures at the project level, it should make no difference whether or not the funds are transferred from project specific capital outlay line items to non-project specific capital outlay items, or alternatively to a non-project specific "reserve for future construction and improvements".

Updated Response: Since, as noted by the auditors "the Board's actions adequately corrected this portion of the finding", no additional response is necessary.

We recommended that the County Administrator consider incorporating Government Finance Officers Association-recommended budgetary practices, institute a procedure that ensures amendment of the budget when final amounts from the prior fiscal year differ from the estimates used in preparing the initial budget, and provide the Board with project-to-date expenditure data for multi-year projects. Several new budgetary practices were adopted during the follow-up period. Further, although budget amendments were adopted to adjust prior year balances brought forward, we found material differences in most fund types, although the countywide total was materially correct. The Board receives project-to-date expenditure data and up to five years in the estimated budget as part of the budget adoption process. During the year, the Board receives quarterly status reports that show current year budget and actual current year expenditures by project. Thus, the Board's actions partially corrected this portion of the finding.

Original Response: This recommendation actually includes three separate subjects. First, as to incorporating GFOA recommended budgetary practices, we believe that our adopted budget policy accomplishes this goal. While preparing this response, our staff had the opportunity to speak with several individuals at GFOA, including Mr. John Fishbein, Senior Manager in the Technical Services Center, who oversees GFOA's Distinguished Budget Presentation Award Program. Based on our conversations with Mr. Fishbein, we believe that the goal intended by the auditor's recommendation has been accomplished by the adoption of the budget policy in February, 2008. Second, concerning the auditor's recommendation that we "institute a procedure that ensures amendment of the budget

Audit Report Finding Number 2

when final amounts from the prior fiscal year differ from the estimates used in preparing the initial budget", we generally concur. The only mitigating circumstance during the audit period about which we have direct knowledge is that for the fiscal year ending September 30, 2007, audited financial statements (which would have included "final amounts from the prior fiscal year" such as ending fund balance which would have served as the basis for any such amendment) were not received until September 2008. At that point, the usefulness of that information as a control is significantly diminished. Nevertheless, upon receipt of the audited financial statements for the fiscal year ending September 30, 2008, we will compare ending fund balance information with the original budget and propose modifications to the adopted budget as appropriate. Finally, concerning the auditors recommendation that we "provide the Board with project-to-date expenditure data for multi-year projects", we concur and are in the process of developing a capital projects reporting system for all capital projects, not just for multi-year projects.

Updated Response: In addition to the fact that we believe we continue to materially comply with each of the three recommendations made by the auditor's in their original report, we also believe that for the fiscal year ending September 30, 2010 there were no material differences in the amounts reported in the government wide financial statements. With that said, in those instances where additional funds become available and are required to be appropriated, a public hearing to amend the budget is held. Over the past three years, we have held such public hearings three or four times per fiscal year. Furthermore, with regard to that portion of the comment dealing with GFOA recommended budgetary practices, for each of the past two fiscal years, Flagler County has received the prestigious Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada. Only about 1,000 of the 40,000 eligible Cities and Counties in the United States and Canada have received the GFOA Award for Distinguished Budget Presentation. The Distinguished Budget Presentation Award Program evaluates every budget document to determine the extent to which it fulfills each of the following four major functions: 1) the budget as a policy tool; 2) the budget as an operations guide; 3) the budget as a financial plan and 4) the budget as a communications medium. Only those documents judged to be proficient in all four major categories receive the Award for Distinguished Budget Presentation. With regard to the comment above dealing with the adoption of annual operating budgets, capital budgets, and capital programs, detailed information regarding the amounts included within the adopted budget, including capital budgets by project number, are included.

As always, should you have any questions or require any additional information, please contact me.

Sincerely,

Craig M. Coffey

Craig M. Coffey
County Administrator
Flagler County, Florida