

McGladrey & Pullen

Certified Public Accountants

City of Pompano Beach, Florida

Single Audit Reports in Accordance with
OMB Circular A-133 and the Florida Single
Audit Act and Management Letter in Accordance
with the *Rules of the Auditor General* of the
State of Florida
Year Ended September 30, 2006

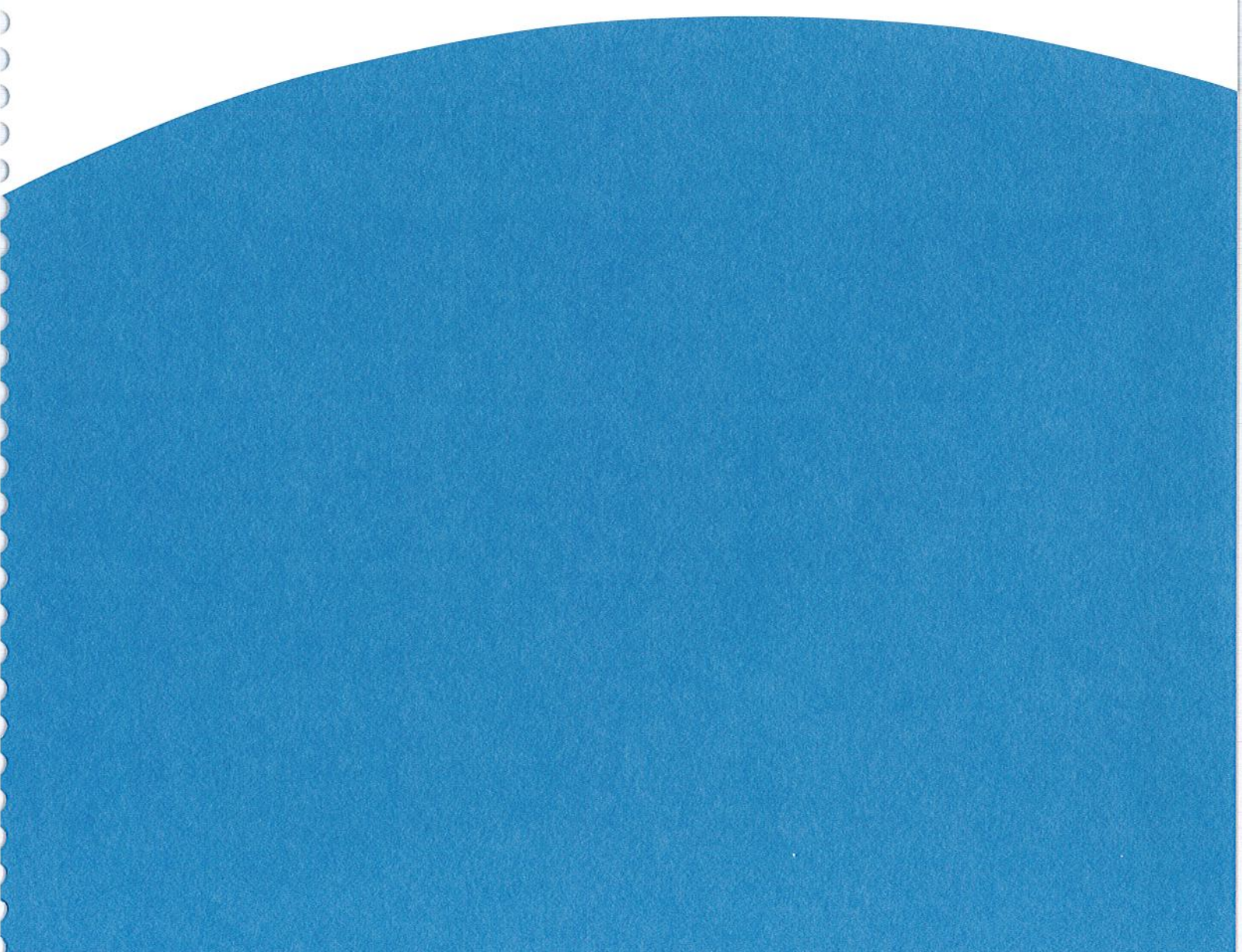


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City of Pompano Beach, Florida

Schedule of Expenditures of Federal Awards
and State Financial Assistance
Year Ended September 30, 2006

Federal/State Agency, Pass Through Entity Federal Program/State Project	CFDA/ CFSA No.	Contractor/ Grant No.	Total Expenditures	Total Transfers to Subrecipients
U.S. Department of Housing and Urban Development: Community Development Block Grant	14.218	B-03-MC-12-0026 through B-05-MC-12-0026	\$ 1,525,648	\$ 305,363
Home Investment Partnerships Program	14.239	M-03-MC-12-0229	365,421	145,101
UP-FRONT Grant	14.000	UPG02FL01429	556,474	-
Total U.S. Department of Housing and Urban Development			2,447,543	450,464
U.S. Department of Homeland Security, FEMA: Pass through Florida Department of Community Affairs Public Assistance Grants	97.036	06-WL-&K-11-16-02-732	9,122,616	-
Pass through Florida Department of Community Affairs State Domestic Preparedness Equipment Support	97.004	05-DS-11-16-01	3,810	-
Total U.S. Department of Homeland Security, FEMA			9,126,426	-
U.S. Department of Justice: Office of Justice Programs: Bureau of Justice Assistance Local Law Enforcement Block Grant	16.592	2004-LBBX-0362	122,041	122,041
Local Law Enforcement Block Grant	16.592	2005-LBBX-0280	69,340	52,225
Total U.S. Department of Justice			191,381	174,266
U.S. Department of Agriculture: Pass through Florida Department of Education Summer Food Service Program for Children	10.559	04-0984	22,193	-
Pass through Florida Department of Agriculture Schools and Roads	10.665	8448 & 8815	13,000	-
Total U.S. Department of Agriculture			35,193	-
U.S. Department of Interior Pass through Florida Department of Environmental Protection Land and Water Conservation	15.227	LWCF 12-00464	200,000	-
Total U.S. Department of Interior			200,000	-
Total Expenditures of Federal Awards			\$ 12,000,543	\$ 624,730

(Continued)

City of Pompano Beach, Florida

**Schedule of Expenditures of Federal Awards
and State Financial Assistance (Continued)
Fiscal Year Ended September 30, 2006**

Federal/State Agency, Pass Through Entity Federal Program/State Project	CFDA/ CFSA No.	Contractor/ Grant No.	Total Expenditures	Total Transfers to Subrecipients
State of Florida:				
Florida Housing Finance Corporation				
State Housing Initiative Partnerships (SHIP) Program	52.901	SHIP	\$ 1,170,531	\$ -
Total Florida Housing Finance Corporation			1,170,531	-
State of Florida:				
Florida Department of Environmental Protection				
Statewide Surface Water Restoration and Wastewater Projects	37.039	LP6089	274,474	-
Total Florida Department of Environmental Protection			274,474	-
Florida Department of Transportation:				
Lighting Maintenance	55.000	FM 405118-1-72-22	140,458	-
Total Department of Transportation			140,458	-
Florida Department of Community Affairs:				
Public Assistance Grants	52.000	06-WL-&K-11-16-02-732	506,812	-
Total Department of Community Affairs			506,812	-
Total Expenditures of State Financial Assistance			\$ 2,092,275	\$ -

See Accompanying Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

**Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2006**

1. General – The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance Projects (the "Schedule") presents the activity of all federal programs and state projects of the City of Pompano Beach, Florida (the "City") for the year ended September 30, 2006. All federal awards and state financial assistance received directly from federal and state agencies, as well as federal and state awards passed through other government agencies are included in the accompanying Schedule. The City's reporting entity is defined in Note 1 of the City's basic financial statements.

2. Basis of Accounting – The accompany Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the modified accrual basis of accounting for grants which are accounted for in the governmental fund types and on the accrual basis of accounting for grants which are accounted for in the proprietary fund types.

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards**

To the Honorable Mayor and Members of the
City Commission
City of Pompano Beach, 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 Pompano Beach, Florida (the "City") as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2007, which referred to the use of the reports of other auditors, and the adoption of a new accounting principle. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the 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 reportable 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 caused by error or fraud 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.

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*.

In addition, we noted certain matters that we reported to management of the City in a separate letter dated January 22, 2007.

This report is intended solely for the information and use of the Honorable Mayor, members of the City Commission, management of the City, federal and state awarding agencies, and pass-through entities 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.

McGladrey & Pullen, LLP

Fort Lauderdale, Florida
January 22, 2007

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Compliance With Requirements Applicable to Each
Major Federal Program and State Project and on Internal
Control Over Compliance in Accordance With OMB
Circular A-133 and Chapter 10.550, *Rules of the Auditor General*
and on Schedule of Expenditures of Federal Awards and State
Financial Assistance**

To the Honorable Mayor and Members of the
City Commission
City of Pompano Beach, Florida

Compliance

We have audited the compliance of the City of Pompano Beach, Florida (the "City") with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement*, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2006. The City's major federal program, and state project are 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 and state projects 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General* 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 or state project 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.

As described in items CF 2006-01 through CF 2006-07 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding allowable costs, subrecipient monitoring, eligibility, special test and provisions and reporting that are applicable to its Community Development Block Grant ("CDGB"), HOME Investment Partnerships Program ("HOME") and State Housing Initiative Partnerships Program ("SHIP") grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the federal awards and state project.

In our opinion, except for the non compliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs and state projects for the year ended September 30, 2006.

Internal Control Over Compliance

The 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 and state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order 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 and Chapter 10.550, *Rules of the Auditor General*.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program or a state project in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items IC 2006-01 through IC 2006-09.

A material weakness is a reportable 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 caused by error or fraud that would be material in relation to a major federal program or a state financial assistance project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that IC 2006-01 and IC 2006-02 of the reportable conditions described above are material weaknesses.

Schedule of Expenditures of Federal Awards and State Financial Assistance

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 as of and for the year ended September 30, 2006, and have issued our report thereon dated January 22, 2007, which referred to the use of the reports of other auditors related to the Pompano Beach Police and Firefighters' Retirement System and the City of Pompano Beach General Employees' Retirement System. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, 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.

This report is intended solely for the information and use of the Honorable Mayor, the members of the City Commission, management of the City, federal and state awarding agencies and pass-through entities 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.

McGladrey & Pullen, LLP

The City of Pompano Beach

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2006

I - Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X Yes No

Reportable condition(s) identified not considered to be material weakness(es)? X Yes None Reported

Type of auditor's report issued on compliance for major programs:

Qualified

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

 X Yes No

Identification of major programs:

The programs tested as major included the following:

CFDA Number(s)

14.218

14.239

97.036

Name of Federal Program or Cluster

Community Development Block Grant

HOME Investment Partnerships

Public Assistance Grants

Dollar threshold used to distinguish between type A and type B programs:

\$ 360,016

Auditee qualified as low-risk auditee?

 Yes X No

(Continued)

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

State Financial Assistance

Internal control over major projects:

Material weakness(es) identified?

_____ Yes X No

Reportable condition(s) identified not

considered to be material weakness(es)?

 X Yes _____ None Reported

Type of auditor's report issued on compliance for
major projects:

Qualified

Any audit findings disclosed that are required to be
reported in accordance with Chapter 10.550, *Rules*
of the Auditor General?

 X Yes _____ No

Identification of major projects:

The projects tested as major included the following:

CFSA Number(s)

52.901

52.000

Name of State Financial
Assistance Project

State Housing Initiative Partnerships ("SHIP")
Public Assistance Grants (state share)

Dollar threshold used to distinguish between type
A and type B programs:

\$ 300,000

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

II – Financial Statements Findings

A. Internal Control

None reported.

B. Compliance

None reported.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

III –Federal Awards and State Financial Assistance Findings and Questioned Costs

A. Internal Control over Compliance

Federal Awards

IC 2006-01 – Subrecipient Monitoring

U.S. Department of Housing and Urban Development –
Community Development Block Grant (CFDA No. 14.218) and
Home Investment Partnerships Program (CFDA No. 14.239)

Criteria: OMB Circular A-133 indicates that a pass-through entity is responsible for monitoring subrecipient activities to provide reasonable assurance that the subrecipient is administering federal awards in compliance with federal requirements and that audits are performed and that subrecipients take timely and appropriate corrective action on all audit findings.

Condition Found: We noted that the City has no documentation evidencing the performance and results of monitoring and/or site visits performed on the progress of activities funded by the program for its subrecipient. Also, we noted instances where progress reports were not formally signed by the representative of the subrecipients and shows no indication on how the City verified the accuracy and reliability of the information received.

Questioned Costs: Undeterminable.

Effect: Sub-grantees and subrecipients may not be administering the activities funded by the program in accordance with the provision of the program requirements and grant agreements and may result in repayment of awards.

Recommendation: We recommend that the City establish a formal policy and procedure in monitoring and reviewing the activities of the sub-grantees of the program. Each site monitoring should be clearly documented indicating at a minimum, the name of the monitor, the date the monitoring occurred, the procedures performed, and if the subrecipient complied with laws, regulations and the provisions of contracts and grant agreements.

Management's Response: Management concurs. Sub-recipients have already been notified that a first quarter report is now due, and quarterly reports will be required within forty-five (45) days of the end of each subsequent quarter. Additionally, the notification indicated that the sub-recipient would be contacted by staff to schedule an on-site monitoring visit. The monitoring visit will not be scheduled until after the receipt and review of the second quarterly report.

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-02 – Residential Rehabilitation and Subrecipient Monitoring

**U.S. Department of Housing and Urban Development –
Community Development Block Grant (CFDA No. 14.218) and
Home Investment Partnership Program (CFDA No. 14.239)**

Criteria: The City entered into a funding agreement with a subrecipient for the purchase and renovation of an existing housing property. The City has provided the agreed funding to the subrecipient.

Condition Found: We noted from the progress report from the subrecipient that subsequent to the purchase, it was determined that the property purchased was severely deteriorated and need to be completely demolished. This condition indicated inadequate pre-inspection procedures performed or lack of it prior to the City's commitment to provide funding.

Questioned Costs: \$48,000 (CDBG) \$96,674 (HOME)

Effect: The funding provided by the City was not fully utilized for the intended purpose and may be disallowed by the federal agency.

Recommendation: We recommend that the City exercise due diligence in performing pre-inspection of applicable properties and evaluate each project prior to providing grant funding.

Management's Response: Management concurs. This case is an exception, and it is not clear to current staff how this situation occurred. Home purchases are not allowed on properties severely deteriorated or in need of demolition. A pre-purchase inspection is required. On a home purchase, an appraisal is required. On rehabilitation jobs, an inspection, work write-up, cost estimate, and contractor bids will be required.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-03 – Allowable Cost of Sidewalk Installation Program

U.S. Department of Housing and Urban Development –
Community Development Block Grant (CFDA No. 14.218)

Criteria: Circular No. A-87 *Cost Principles for State, Local and Indian Tribe Governments* requires that cost allocation plans or an indirect cost rate shall be certified by an officer of the governmental unit and be submitted to a federal cognizant agency or maintained on file by the governmental unit.

Condition Found: One of the approved activities of the program is the sidewalk installation project along the Northwest area of the City. The City uses the general fund for the actual sidewalk installation project expense and in turn charge project cost to the CDBG program. The project cost charged to the program is based on the City's construction price list per square foot. There is no documentation on file which supports that the plan and rates used by the City to allocate project costs to the CDBG program is certified by the City and approved by the federal government.

Questioned Costs: \$224,520

Effect: Failure to establish and submit a certified cost allocation plan or rate for approval by the federal government prior to implementation may result in the program cost being disallowed.

Recommendation: We recommend that the City first establish a cost allocation plan or an indirect cost rate which should be certified by an officer of the City at a level no lower than the chief financial officer. The Plan or indirect rate should be submitted to the City's federal cognizant agency for approval or maintained on file.

Management's Response: Management concurs. Initial meetings have been held with Public Works for the installation of sidewalks for fiscal year 2006-2007. Upon determination of costs, approval will be sought from the federal government. We will also request to obtain a waiver for the prior funding year.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-04 – Participants File

U.S. Department of Housing and Urban Development –
Home Investment Partnerships Program (CFDA No. 14.239)

Criteria: Each program participant's file should include all applicable forms, be properly signed by both the third party applicant and an authorized City official, and documented indicating the progress of each project.

Condition Found: We selected 9 participant files for testing and noted they had one or all of the following deficiencies:

- a. Required documentation, such as, homebuyers workshop certification, homeowner insurance with the City as additional mortgagee, home inspection report, qualification worksheet was either not in the file or documents were missing required signatures showing acceptance or approval.
- b. Certain documents signed by the participants such as income certification, affidavit occupancy requirement, deferred loan to grant agreement, and promissory notes contain references to State Housing Initiative Partnership Program Grant ("SHIP"), another housing program of the City.
- c. Two participants have signed deferred loans to grant agreement with a ten-year term instead of the program's five-year maximum term.
- d. Information packet on the First-Time Homebuyer Program ("FTHB") is outdated and needs to be revised to reflect the current maximum value of property to be purchased with FTHB assistance money.

Effect: Incomplete, inaccurate and improper documentation or lack of proper signatures on participants' forms and documents preclude the City from effectively evaluating and monitoring the eligibility of participants and progress of each project.

Recommendation: We recommend that the City include, as part of the program policies and procedures, a timeframe for appropriate review of each participant's file for completeness and required documentation.

Management's Response: Management concurs. Staff has already developed a "model" file. This file requires a certain order for documentation placed in the file and also includes a checklist that must be attached to the file and completed. The initial file review will be at the time of funding approval. The final verification will happen at the time of receipt of all loan closing documentation (including recorded documents).

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

State Financial Assistance

IC 2006-05 – Housing Rehabilitation Project Cost and Deferred Loan to Grant Agreement

**Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)**

Criteria: The program requires participants to sign a deferred loan agreement covering the value of housing rehabilitation received from the City. If the participant fails to meet the requirements of the agreement, the participant is obligated to reimburse the loan amount to the City.

Condition Found: We noted all of the three (3) housing rehabilitation assistance projects in which the actual completed costs or incurred costs exceeded the deferred loan amount (agreed to and signed by the participants) as of September 30, 2006.

Questioned Costs: \$6,421.

Effect: Participants may not be repaying the correct loan amount.

Recommendation: We recommend that the City enforce its policy and procedures regarding the loan agreement to help ensure that the City has proper contractual documentation to enforce the proper potential collection of the loan amount.

Management Response: Management concurs. General guidelines of program set-up have already been drafted. These guidelines should ensure that work performed matches loan documentation. More detailed operating guidelines may be developed before the Rehabilitation Program is re-opened.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-06 – Disaster Relief

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Criteria: The City provided grant assistance to residents of the City to repair roofs damaged by Hurricane Wilma. As part of the evaluation of applicants, the City inquired whether the applicant applied and received assistance from Federal Emergency Management Agency ("FEMA").

Condition Found: We noted that two (2) out of seven (7) recipients of disaster relief assistance have indicated in their application letter and have provided FEMA notices of approved federal assistance. However, the City has no specific policies nor was it apparent from the documentation on file whether the FEMA assistance is considered in the determination of final grant assistance to the recipients and subsequent verification of the receipt of the FEMA assistance by the recipients.

Questioned Costs: \$8,509

Effect: Lack of a formal policy and procedures in place to ensure recipients of the grant assistance are not receiving other financial assistance for the same benefit may lead to abuse of funds and preclude other applicants to benefit from the program.

Recommendation: We recommend that the City establish policy and procedures concerning grant assistance that recipients may receive from other federal or state agencies to avoid duplication of benefits.

Management's Response: Management concurs. This allocation of funds was made as a result of Hurricane Wilma. All funds have been encumbered/expended, therefore the program is now closed. Procedures for monitoring financial assistance will be established prior to opening and funding a new program. Such procedures will require cooperation between local, State, and Federal disaster funding agencies.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-07 – Annual Reports to the State

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Criteria: The State requires the City to submit an annual report on program activity for each State award year.

Condition Found: We noted the following deficiencies over the preparation of annual reports:

- a. We found differences in expenditure amounts reported in the general ledger verses the amounts reported in the annual report.
- b. We noted instances in which expenditures had been included between program years. Expenditures were reclassified between general ledger accounts for each program year.

Questioned Costs: Undeterminable.

Effect: The reporting of inaccurate data to the grantor could result in the compilation of inaccurate information for decision-making purposes.

Recommendation: We recommend that as part of the process in preparing annual reports, a review of the annual report be performed by a person other than the preparer. In addition, we recommend that the City ensure the proper use of general ledger codes for each program year to minimize additional time spent on analyzing and reclassifying transactions to proper program year codes.

Management's Response: Management concurs. The Office of Housing and Urban Improvement ("OHUI") has already started working with Finance and Information Technology departments to make sure that data on the GL is accurate. Also, OHUI is implementing the use of "SHIP TRACK" software program which will simplify the preparation of the Annual Report and ensure greater accuracy.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-08 – Target Units

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Criteria: The City's Local Housing Assistance Plan requires the development of annual delivery/target goals in terms of number of households in each income level to be served by the different activities of the program.

Condition Found: We noted that the current delivery/target goals for the program year 2005-2006 were not revised with the increase in the program funding and budget.

Effect: The current delivery/target goals do not provide an accurate and effective tool in managing the program and in evaluating the performance of the program.

Recommendation: We recommend that the City consider revising the current delivery/target goals to include additional number of households to be served with the increase in program funding.

Management's Response: Management concurs. Targets will be modified to coincide with current conditions and affordable housing needs.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

IC 2006-09 – Participants File

**Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)**

Criteria: The City's Local Housing Assistance Plan and practices establish certain documents to be placed in participants' file documenting the application, approval and progress of each project.

Condition Found: We noted instances whereby required documentation, such as homebuyers workshop certification, homeowner insurance with the City as additional mortgagee, home inspection report, and qualification worksheets were either not in the file or were missing the required signatures showing acceptance or approval. In addition, we noted that certain information obtained from applicants and used in the approval process were not current, particularly information on income.

Effect: Incomplete, inaccurate and improper documentation or lack of proper signatures on participants' forms and documents preclude the City from effectively evaluating and monitoring the eligibility of participants and progress of each project.

Recommendation: We recommend that the City include, as part of the program policies and procedures, a timeframe for appropriate review of each participant's file for completeness and required documentation.

Management's Response: Management concurs. Staff has already developed a "model" file. This file requires a certain order for documentation placed in the file and also includes a checklist that must be attached to the file and completed. The initial file review will be at the time of funding approval. The final verification will happen at the time of receipt of all loan closing documentation (including recorded documents).

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

B. Compliance Findings

CF 2006-01 – Subrecipient Monitoring

U.S. Department of Housing and Urban Development –
Community Development Block Grant (CFDA No. 14.218) and
Home Investment Partnerships Program (CFDA No. 14.239)

See IC 2006-01

Management's Response: Management concurs. See IC 2006-01 for detailed management's response.

CF 2006-02 – Residential Rehabilitation and Subrecipient Monitoring

U.S. Department of Housing and Urban Development –
Community Development Block Grant (CFDA No. 14.218) and
Home Investment Partnerships Program (CFDA No. 14.239)

See IC 2006-02

Management's Response: Management concurs. See IC 2006-02 for detailed management's response.

CF 2006-03 – Allowable Cost of Sidewalk Installation Program

U.S. Department of Housing and Urban Development –
Community Development Block Grant (CFDA No. 14.218)

See IC 2006-03

Management's Response: Management concurs. See IC 2006-03 for detailed management's response.

The City of Pompano Beach

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

CF 2006-04 – Special Test and Provisions

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Criteria: The program is required to meet certain minimum statutory percentages and strategy unit targets on the use of funds.

Condition Found: We noted the following instances of noncompliance on the minimum statutory percentage and strategy unit targets for the following category:

- a. The City did not meet the minimum statutory percentage of 34% for low income and 20% for moderate income for income levels of participants in the program year 2003-2004. In addition, the actual units produced/served under the Infill Housing, Housing Rehabilitation Assistance, and Rental New Construction were below the strategy unit targets established for all income levels.
- b. The City did not meet the minimum statutory percentage of 32% for low income and 20% for moderate income for income levels of participants in the program year 2004-2005 based on the actual cost incurred and encumbered amount.

Questioned Costs: Undeterminable.

Effect: Instances of noncompliance may result to de-obligation of funds by the grantor.

Recommendation: We recommend that the grant administrator monitor the activities of this grant to ensure future compliance.

Management's Response: Management concurs. Targets will be modified and activities will be monitored to ensure future compliance.

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

CF 2006-05 – Housing Rehabilitation Project Cost and Deferred Loan to Grant Agreement

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

See IC 2006-05.

Management's Response: Management concurs. See IC 2006-05 for detailed management's response.

CF 2006-06 – Disaster Relief Assistance

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

See IC 2006-06.

Management's Response: Management concurs. See IC 2006-06 for detailed management's response.

Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2006

CF 2006-07 – Annual Reports to the State

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

See IC 2006-07.

Management's Response: Management concurs. See IC 2006-07 for detailed management's response.

City of Pompano Beach, Florida

Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2006

I – Findings Required to be Reported in Accordance With Generally Accepted Governmental Accounting Standards

A. Internal Control

None reported.

B. Compliance Findings

None reported.

II – Findings and Questioned Costs for Federal Award Programs and State Financial Assistance Projects

Internal Control and Compliance Finding

Items IC 2005-01 and CF 2005-02 – Housing Rehabilitation Project Cost and Deferred Loan to Grant Agreement

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Current Year's Status: Findings are not corrected. There were similar findings noted in the current year's audit. See Items IC 2006-04 and CF 2006-05.

Items IC 2005-02 and CF 2005-02 – Housing Rehabilitation Project Cost

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Current Year's Status: Findings are not corrected. No similar findings were noted in the current year's audit.

Items IC 2005-03 and CF 2005-03 – Annual Reports to the State

Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)

Current Year's Status: Findings are not corrected. There were similar findings noted in the current year's audit. See Items IC 2006-07 and CF 2006-07.

City of Pompano Beach, Florida

**Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2006**

Item IC 2005-04 – Participants File

**Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)**

Current Year's Status: Finding is not corrected. There was a similar finding noted in the current year's audit. See item IC 2006-04.

Item CF 2005-01 – Special Tests and Provisions

**Florida Housing Finance Corporation –
State Housing Initiative Partnerships Program
Grant (CFSA No. 52.901)**

Current Year's Status: Finding is not corrected. There was a similar finding noted in the current year's audit. See item CF 2006-04.

McGladrey & Pullen

Certified Public Accountants

Management Letter Required By Chapter 10.550 of the Rules of the Auditor General of the State of Florida

To the Honorable Mayor and Members of the
City Commission
City of Pompano Beach, 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 Pompano Beach, Florida (the "City") as of and for the fiscal year ended September 30, 2006 and have issued our report thereon dated January 22, 2007, which referred to the use of the reports of other auditors and the adoption of a new accounting principle.

We have issued our Independent Auditor's Report on Internal Control Over Financing Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports dated January 22, 2007, should be considered in conjunction with this management letter.

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* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which require that certain items be addressed in this letter. Those items are as follows:

Unless otherwise addressed in other auditor reports or schedule of findings and questioned costs:

1. A statement as to whether or not corrective actions have been taken to address significant 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.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The City's policy regarding the investment of public funds follows the requirements of Florida Statutes. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes, relating to local government investment policies.

3. Recommendations to improve the City's financial management, accounting procedures, and internal controls.

Recommendations to improve the City's financial management, accounting procedures and internal controls are reported below in Appendix A to this report.

4. Matters that are not clearly inconsequential, considering both quantitative and qualitative factors including the following:

- a. Violations of laws, rules, regulations and contractual provisions or abuse that have occurred, that were discovered within the scope of the audit.
- b. Improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements.
- c. Deficiencies in internal control that are not reportable conditions including, but not limited to: (1) improper or inadequate accounting procedures, (2) failures to properly record financial transactions, and (3) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that came to the attention of the auditor.

We noted no such conditions, as a consequence of our audit. We have issued a separate report dated January 22, 2007, on compliance and internal control over financial reporting.

5. The name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements.

This information is disclosed in Note 1 of the City's financial statement.

- 6a. A statement as to whether or not the City met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

In connection with our audit, we determined that the City is not in a state of financial emergency as a consequence of the conditions described by Section 218.503(1), Florida Statutes.

- 6b. A statement as to whether or not the annual financial report for the City 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, 2006.

As of the date of this management letter, the City has not filed the financial report with the Florida Department of Financial Services.

6c. Financial condition assessment procedures were applied pursuant to Rule 10.556(7).

We noted no deteriorating financial condition pursuant to Rule 10.556(7). It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This report is intended solely for the information and use of the Honorable Major, members of the City Commission, management of the City, federal and state awarding agencies, and pass-through entities and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Fort Lauderdale, Florida
January 22, 2007

Appendix A – Recommendations to Improve Financial Management,
Accounting Procedures and Internal Control (Continued)
Fiscal Year Ended September 30, 2006

CURRENT YEAR'S COMMENTS AND RECOMMENDATIONS

ML 2006-01 – Request for Reimbursement of CDBG/HOME Grant

Criteria: Policies and procedures should be in place to ensure that regular and timely request for reimbursement of CDBG/HOME grants are made, although there is no specific requirement to submit a monthly reimbursement request.

Condition Found: We noted that request for reimbursement from October 2005 to May 2006 were submitted in June 2006. The City's management informed us that U.S Housing and Urban Development ("HUD") advised grantees to hold the submission of request from October to December 2005 until they have closed out the previous funding year. However, the months from January 2006 to May 2006 is considered a significant amount of time for expenses not reported for reimbursement.

Effect: The special revenue fund being used for these grants showed negative equity in pooled cash which denotes that the expenditures of the program were paid from the general fund.

Recommendation: We recommend that the City implement a policy to ensure that reimbursement requests are submitted on a monthly basis in order to avoid the City's resources being used to subsidize for program expenses for an extended period of time.

Management's Response: Management concurs. The reason for the delay was due to staff turnover in the Treasury Division and the failure of past management personnel to cross train staff to perform the function of compiling the data necessary for Office of Housing and Urban Improvement staff to perform the drawdowns. To prevent this from occurring in the future, at least two Treasury Division staff will be cross trained to prevent delays in the data compilation process. The actual drawdown of funds is performed by Office of Housing and Urban Improvement staff and subsequently approved by Finance Department staff.

Appendix B – Status of Prior Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2006

PRIOR YEAR'S COMMENTS AND RECOMMENDATIONS

ML 2005-01 – Capital Assets

Current year status: No similar matter was noted.

ML 2005-02 – Infrastructure Reporting

Current year status: No similar matter was noted in current year's audit.

ML 2005-03 – Accrued Unbilled Utility Revenues

Current year status: No similar matter was noted in the current year's audit.

ML 2005-04 – Compensated Absences

Current year status: No similar matter was noted in the current year's audit.

ML 2005-05 – Reimbursements for Hurricane Related Expenditures

Current year status: No similar matter was noted in the current year's audit.