

**CITY OF KEY WEST, FLORIDA**

**COMPLIANCE SECTION**

For the Year Ended September 30, 2010

# CITY OF KEY WEST, FLORIDA

## COMPLIANCE SECTION

For the Year Ended September 30, 2010

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

To the Honorable Mayor, City Commissioners and City Manager  
City of Key West, 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 Key West, Florida (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 31, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The Housing Authority of the City of Key West, Florida, which is the sole discretely presented component unit, as described in our report on the City of Key West, Florida's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Also, other auditors audited the financial statements of Pension Trust Fund for Police Officers and Firefighters, as described in our report on the City of Key West, Florida's financial statements. The financial statements of Pension Trust Fund for Police Officers and Firefighters were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

City of Key West, Florida

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 have reported to the management of the City of Key West, Florida in our Independent Auditors' Report to City Management included on pages 5 through 10.

The City of Key West, Florida's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 31, 2011



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
AND CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*

To the Honorable Mayor, City Commissioners and City Manager  
City of Key West, Florida

Compliance

We have audited the compliance of the City of Key West, Florida (the "City") with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, and the requirements described in the Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on each of the City's major Federal programs and state projects for the year ended September 30, 2010. The City's major Federal programs and state projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs 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 of America; OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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.

In our opinion, the City of Key West, Florida complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and state projects for the year ended September 30, 2010.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program and state project on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program and state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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.

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, 2010, and have issued our report thereon dated March 31, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Chapter 10.550, Rules of the Auditor General, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 31, 2011



## INDEPENDENT AUDITORS' REPORT TO CITY MANAGEMENT

To the Honorable Mayor, City Commissioners and City Manager  
City of Key West, Florida

We have audited the basic financial statements of the City of Key West, Florida (the "City"), as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated March 31, 2011.

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 State, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters; Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance; and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 31, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule.

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted on pages 6 through 8 under the heading Prior Year Findings and Recommendations.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following findings and recommendations:

**PRIOR YEAR FINDINGS AND RECOMMENDATIONS:**

	<u>STILL APPLICABLE</u>	<u>PARTIALLY IMPLEMENTED</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
2007-02: Establish a City-Wide Schedule of Fees and a Cash Receipts Procedures Manual		X	
2007-03: Improve Segregation of Duties – Utility			X
2007-06: Review and Adjust the Penalty Calculation for Stormwater	X		
2007-07: Unmatched Meters	X		
2007-09: Capital Assets Acquired With Grant Funding and City-Wide Inventory Controls			X
2008-07: Review Collection Procedures – Sewer, Stormwater and Solid Waste Services	X		
2009-01: Adopt a Formal Cost Allocation Plan		X	
2009-02: Adopt a Formal Fund Balance Policy			X

**2007-02: Establish a City-Wide Schedule of Fees and a Cash Receipts Procedures Manual**

The City has diverse revenue sources ranging from parking meters/lots, rentals, fines, bus fares, advertising, building permits, sales and utilities services, etc. These revenues are collected at various locations and processed by the Revenue Department. Management should review current practices used to account for each revenue source and establish written processing guidelines (e.g. policy manuals, flowcharts). This additional documentation can be used in assessing the effectiveness of current practices, evaluating performance, ensuring accuracy and completeness of revenue, and training new hires to perform the process. It was noted that during the current year, the City continued the process of compiling the necessary information to produce a formal procedures manual.

In addition, it was previously recommended that the City consider the implementation of a *City-Wide Schedule of Fees*. During the current year, we noted that the City substantially completed its City-Wide Schedule of Fees but awaits final review by management and presentation to the City Commission for approval.

**Management’s Response:**

The City clearly recognizes the value to both internal and external customers in the codification of a centralized fee and charges schedule. During the fiscal year 2009/2010, the City assembled a City-Wide Schedule of Fees which is currently under the review of management and subsequently will be presented to the City Commission for approval.

The City continued the development of written guidelines that will help support the revenue collection and recognition processes. The City expects to complete these written guidelines in the near future.

**PRIOR YEAR FINDINGS AND RECOMMENDATIONS (continued):**

**2007-06: Review and Adjust the Penalty Calculation for Stormwater**

The penalty calculation for stormwater is not in compliance with the City’s code. The City’s code reads as follows: “user fees shall be subject to a five percent per month (not to exceed 25% late fee)”. Our review revealed that the billing system is assessing a “one-time” five percent penalty charge. We recommend that the City brings the penalty calculation in compliance with the code. This could be achieved by either modifying the code or the billing system.

**Management’s Response:**

The City’s Code is expected to be modified to conform to the systems ability to apply penalty charges.

**2007-07: Unmatched Meters**

During our audit, City staff disclosed that unmatched meters to the sewer billing system continues to be an issue faced by the City. The City should continue its on-going commitment to evaluate and correct these exception reports, prepared by the Revenue Department, and increase its possible additional billing opportunities. We recommend that management quantifies the effect of unmatched meters, and any other related exceptions, and thoroughly reviews the billing process/system to ensure that revenues are being billed to all recipients of the system.

**Management’s Response:**

The City of Key West recognizes the unmatched meters issue and is working to resolve these discrepancies. Recent matching efforts have demonstrated the process of matching can be accomplished but requires a considerable level of effort from several departments to make even the slightest gain on the issue. Under consideration by City Management is the use of several contract employees on a limited basis to handle the field work and the use of available “in-place” resources to update customer account files.

**2008-07: Review Collection Procedures – Sewer, Stormwater and Solid Waster Services**

During our audit, we noted that delinquent accounts receivable balances related to sewer, stormwater and solid waste services continue to increase. Upon inquiry, staff cited that the Revenue Department may be understaffed, which may cause delays in collection efforts. We recommend that the City assess the cost-benefit of hiring additional staff or outsourcing the services of a collection agency.

**Management’s Response:**

At the direction of City Management, the City’s Utilities Manager is in the process of drafting a job description for a position of Utilities Collections Manager. This position will focus on improving the City’s collection rate, ensuring that customer billing information is more accurate, and establishing and maintaining policies and procedures regarding collection practices and the coordination of activities with the Legal Department and the possible use of private collection resources on the more difficult cases. This position is expected to be funded through the elimination of the vacant General Services Department Director position and is scheduled to be filled in the near future.

**PRIOR YEAR FINDINGS AND RECOMMENDATIONS (continued):**

**2009-01: Adopt a Formal Cost Allocation Plan**

The City has not adopted a formal cost allocation plan that details the various methodologies used to support expenditure allocations such as: 1) payments in lieu of taxes (PILOT) from each enterprise fund to the general fund and 2) charges from the internal service fund to every fund/department for various insurances. This situation has caused and may cause future delays in the approval and payment process of grant funding to the City. We previously recommended that the management of the City develop a formal cost allocation plan, reviewed annually, that reflects a measurement of costs charged to the individual funds/departments.

During the current year, the City retained a third party consulting firm to complete the cost allocation plan. The consulting firm recently submitted a preliminary discussion draft to the City. Management expects the cost allocation plan to be finalized and presented to the City Commission for approval in 2011, and to complete its implementation stage during the fiscal year 2011/2012.

**Management's Response:**

The City strongly endorses the need for a formal cost allocation plan. As noted above, the City hired a third party consulting firm to complete the study. Also, the City is in the process of reviewing drafts and meeting with its consultants to finalize the report. The City expects to complete the report during 2011 for final implementation during the fiscal year 2011/2012.

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS:**

**2010-01: Grant Projects - Reimbursement Requests**

During the year, the City entered into numerous planning and construction grant agreements with various governmental agencies, mainly with the Florida Department of Transportation. These agreements require significant administrative involvement by City staff to ensure that all required documentation and grantee responsibilities are fully met for reimbursement and project close-out. During our audit, we reviewed several monitoring reports conducted by the grantor agency. These monitoring reports cited pending project documentation which has caused delay with the grantor's final payment and/or retainage and project acceptance. In addition, we noted that the fund with responsibility for the capital outlay has received temporary advances from other City funds to finance the projects until grant monies are received. We recommend that the City continues to monitor the status of these projects and clear all related exceptions with the grantor agency. The City may benefit from temporary personnel to assist its full-time grants administrator and ensure prompt and complete payment by the grantor agency. Subsequent to year-end, the City has taken a proactive approach to correct these exceptions and we noted improvement on the collection of the outstanding amounts.

**Management's Response:**

The City entered into numerous planning and construction grant agreements that increased the administrative workload of City's current staff, specially the grants specialist. In addition, these new agreements included many additional administrative compliance requirements as established by the Federal awarding agencies. The City's grants specialist is currently working diligently with our grantors to cure their monitoring findings. The City is moving forward with the completion of a significant number of these agreements and expects full administrative compliance and reimbursement in the near future.

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS (continued):**

**2010-02: State of Florida Division of Emergency Management – Establish a Repayment Plan**

The City received an award from the Florida Department of Community Affairs (the “Department”), a FEMA grantee, for debris removal, emergency protective measures, and restoration of its sewer system and other facilities damaged as a result of Hurricane Irene in October 1999. Subsequently, the Office of Inspector General (the “OIG”) audited the public assistance funds awarded to the City. In general, the results of the audit concluded that City’s claims for reimbursement resulted from charges for pre-existing damage. The City appealed the OIG’s decision twice; however, in 2008 the City received final notification that its second and final appeal was denied. The Department is seeking reimbursement from the City of approximately \$ 6,600,000. The City has acknowledged its responsibility and recorded the liability in the City’s books and records. As required by the Department, we recommend that the City submits a lump-sum payment or request a repayment plan as soon as possible; and avoid possible delays of future awards and funding in the event of another catastrophic storm affecting our region.

**Management’s Response:**

The City’s state lobbyist is currently working with Florida Department of Community Affairs and the Governor’s Office to establish a repayment plan that will be within the City’s current budgetary constraints. Payments have been estimated and budgeted.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statement, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and; (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, 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. The City of Key West, Florida was established under the provisions of Chapter 23374, Laws of Florida (1945), as amended. The City of Key West, Florida, includes as its component units: 1) The Housing Authority of the City of Key West, Florida, created by Florida Statute Chapter 421 and by resolution in 1938; and 2) the Key West Local Redevelopment Agency created under Florida Statute 163 and Section 2-446 of the Code of Ordinances of the City of Key West, Florida.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

City of Key West, Florida

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of City management, members of the City Commission, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 31, 2011

**CITY OF KEY WEST, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended September 30, 2010**

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
<b>FEDERAL AWARDS</b>				
<b><u>DEPARTMENT OF AGRICULTURE</u></b>				
<b>Direct Program:</b>				
Wildlife Habitat Incentive Program	10.914	N/A	7242090814L	\$ 2,850
<b><u>U.S. DEPARTMENT OF DEFENSE</u></b>				
<b>Pass-through the Department of The Army:</b>				
ARRA - Florida Keys Water Quality Improvement Program (Section 109)	12.128	N/A	W32CS500602530	7,877,217
<b><u>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>				
<b>Direct Program:</b>				
Housing Opportunities for Persons with AIDS	14.241	N/A	FL-H07-0008	456,422
<b>Pass-through Florida Department of Community Affairs:</b>				
Community Development Block Grant - Entitlement Grants	14.228	N/A	08DB-D3-11-54-02-A11	3,793,583
<b>Pass-through Florida Department of Children and Families:</b>				
Emergency Shelter Grants Program	14.231	N/A	KFZ 33	61,046
<b><u>DEPARTMENT OF THE INTERIOR FISH AND WILDLIFE SERVICE</u></b>				
<b>Pass-through Florida Department of Environment Protection:</b>				
Clean Vessel Act	15.616	N/A	CVA09-555	48,750
Clean Vessel Act	15.616	N/A	CVA09-560	65,000
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>				
<b>Direct Programs:</b>				
Federal Forfeitures	16.XXX	N/A	-	141,631
Organized Crime Drug Enforcement Task Forces	16.XXX	N/A	FC/FLS-1591	11,163
Organized Crime Drug Enforcement Task Forces	16.XXX	N/A	FC/FLS-1771	7,852
Organized Crime Drug Enforcement Task Forces	16.XXX	N/A	FC/FLS-1651	442
Bullet Proof Vest Partnership Program	16.607	N/A	2009BUBX08044212	4,908
Public Safety Partnership and Community Policing Grants	16.710	N/A	2006CKWX0295	21,010
ARRA - Public Safety Partnership and Community Policing Grants	16.710	N/A	2009-RK-WX-0234	41,195
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	N/A	2009-SB-B9-0887	76,517
Edward Byrne Memorial Justice Assistance Grant	16.738	N/A	2009-DJ-BX-0400	18,595
<b>Pass-through Florida Department of Law Enforcement:</b>				
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	N/A	2010-ARRC-MONR-1-W-7007	134,885
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>				
<b>Direct Programs:</b>				
Job Access-Reverse Commute	20.516	N/A	FL-37-X019-00	252,563
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	N/A	FL-03-0299-00	42,201

**CITY OF KEY WEST, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**  
**(continued)**  
**For the Year Ended September 30, 2010**

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
<b>FEDERAL AWARDS (continued)</b>				
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b> (continued)				
<b>Pass-through Florida Department of Transportation:</b>				
Highway Planning and Construction	20.205	N/A	ANT08	102,634
Highway Planning and Construction	20.205	N/A	AP724	425,752
Highway Planning and Construction	20.205	N/A	AP728	185,789
Highway Planning and Construction	20.205	N/A	APQ64	126,226
Highway Planning and Construction	20.205	N/A	AP540	307,901
Highway Planning and Construction	20.205	N/A	APD59	41,585
Highway Planning and Construction	20.205	N/A	APQ62	59,057
Highway Planning and Construction	20.205	N/A	APJ31	608,136
Highway Planning and Construction	20.205	N/A	APG61	1,696
ARRA - Highway Planning and Construction	20.205	N/A	APJ16	116,852
ARRA - Highway Planning and Construction	20.205	N/A	APJ17	219,627
ARRA - Highway Planning and Construction	20.205	N/A	APJ25	15,884
ARRA - Highway Planning and Construction	20.205	N/A	API68	167,209
ARRA - Formula Grants for Other Than Urbanized Areas	20.509	N/A	APU61	83,569
Formula Grants for Other Than Urbanized Areas	20.509	N/A	APT05	79,029
Formula Grants for Other Than Urbanized Areas	20.509	N/A	APE75	293,210
<b><u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<b>Pass-through the Monroe County Coalition, Inc.:</b>				
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	N/A	-	10,800
<b>Pass-through Human Services Associates, Inc.:</b>				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	-	15,000
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>				
<b>Pass-through Florida Division of Emergency Management:</b>				
Disaster Grants - Public Assistance	97.036	N/A	06-WL-&K-11-54-00-539	216,330
Disaster Grants - Public Assistance	97.036	N/A	08-PA-B9-11-54-13-714	161,002
Disaster Grants - Public Assistance	97.036	N/A	06-KF-B&-11-54-00-592	22,764
Disaster Grants - Public Assistance	97.036	N/A	06-RT-&W-11-54-02-517	2,053
Hazard Mitigation Grant	97.039	N/A	09HM-37-11-54-02-030	120,921
Hazard Mitigation Grant	97.039	N/A	09HM-37-11-54-02-031	17,311
<b>Total Federal Awards Expenditures</b>				<b>\$ 16,458,167</b>

**STATE FINANCIAL ASSISTANCE**

**EXECUTIVE OFFICE OF THE GOVERNOR**

Economic Development Transportation Fund	N/A	31.002	OT09-077	\$ 30,263
Enterprise Florida, Inc.	N/A	31.003	DIG-06-11	275,433
Enterprise Florida, Inc.	N/A	31.003	DIG-07-03	95,000
Enterprise Florida, Inc.	N/A	31.003	DIG-07-04	39,194

**CITY OF KEY WEST, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**  
**(continued)**  
**For the Year Ended September 30, 2010**

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
<b>STATE FINANCIAL ASSISTANCE (continued)</b>				
<b><u>FLORIDA DEPARTMENT OF ENVIRONMENT PROTECTION</u></b>				
Beach Erosion Control Program	N/A	37.003	08M02	27,724
<b><u>DEPARTMENT OF TRANSPORTATION</u></b>				
Seaport Grants	N/A	55.005	ANS44	807,096
Seaport Grants	N/A	55.005	AOJ04	8,502
Public Transit Block Grant Program	N/A	55.010	APU70	174,487
Public Transit Service Development Program	N/A	55.012	ANT11	<u>143,636</u>
<b>Total State Financial Assistance Expenditures</b>				<b>\$ <u>1,601,335</u></b>

**NOTES:**

(1) The Schedule of Expenditures of Federal Awards and State Financial Assistance was prepared on the full accrual basis of accounting.

(2) Total amount paid to subrecipients with federal funds was \$ 456,422 from the Housing Opportunities for Persons with AIDS federal program. Other federal programs did not utilize subrecipients. There were no subrecipients from the state financial assistance programs.

CITY OF KEY WEST, FLORIDA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended September 30, 2010

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Key West, Florida.
2. No material weaknesses relating to the audit of the basic financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of City of Key West, Florida were disclosed during the audit.
4. No material weaknesses relating to the audit of the major Federal programs and state projects are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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.
5. The auditors' report on compliance for the major Federal programs and state projects for the City of Key West, Florida expresses an unqualified opinion.
6. No audit findings relative to the major Federal programs and state projects for the City of Key West, Florida are reported in Part C of this schedule.
7. The programs/projects tested as a major programs/projects include the following:

<u>Federal Programs</u>	<u>Federal CFDA No.</u>
U.S. Department of Defense - Florida Keys Water Quality Improvement Program (Section 109) - ARRA	12.128
U.S. Department of Justice - ARRA Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803
U.S. Department of Transportation - Highway Planning and Construction	20.205
<u>State Projects</u>	<u>State CSFA No.</u>
Executive Office of the Governor - Enterprise Florida, Inc.	31.003
Florida Department of Transportation - Seaport Grants	55.005

8. The threshold for distinguishing Type A and Type B for Federal programs was \$ 493,745. The threshold for distinguishing Type A and Type B for state projects was \$ 300,000.
9. The City of Key West, Florida was determined to be a low-risk auditee pursuant to OMB Circular A-133.

**CITY OF KEY WEST, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(continued)  
For the Year Ended September 30, 2010

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS AUDITS**

NONE

**D. OTHER ISSUES**

1. We noted certain matters that we have reported to the management of the City of Key West, Florida in our Independent Auditors' Report to City Management included on pages 5 through 10.
2. No summary schedule of prior audit findings is required because there were no prior audit findings related to Federal program or State projects.
3. No corrective action plan is required because there were no findings required to be reported under the Federal and the Florida Single Audit Act.