

TAB 10

**POINT PAPER
SRF STORMWATER LOAN
EXECUTION OF AUDIT CONTRACT**

Problem: Contract for audit services to be executed for an external audit of the State Revolving Fund Stormwater Loan.

Background:

In October 2007, the State of Florida and the City amended the SRF Stormwater Loan SW120863010 for \$2,928,000. As part of this amendment, the City is required to complete an audit within 12 months of signing the amendment. This is noted in Amendment 1, Section 5, Para (4) - Project Specific Audit. This amendment also decreased the annual payment, saving the City \$14,000 annually on the principal payment.

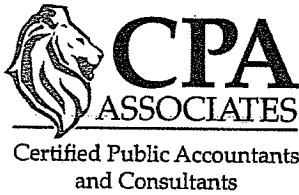
A quote from CPA Associates for an amount not to exceed \$6,500 has been obtained. CPA Associates currently audits the City's financial statements and will be able to perform the audit quickly due to their knowledge and familiarity with Staff and the City's financial system.

Alternatives:

1. Do nothing. – Non compliance of the approved amendment
2. Authorize the Mayor to execute a contract with CPA Associates not to exceed \$6,500.

Recommendation: Staff recommends alternative #2, to authorize the Mayor to execute a contract with CPA Associates

Budget Impact: Budget transfer in the amount of \$6,500 will be completed from Stormwater Principal - SRF Loan (440 538 7100) to Contract Services (440 538 3116).



April 10, 2008

Mr. James R. Freeman, City Clerk
City of Palmetto, Florida
516 8th Avenue West
Palmetto, Florida 34221

Dear Mr. Freeman:

This letter is to explain our understanding of the arrangements for the services we are to perform for the City of Palmetto, Florida, regarding the State Revolving Fund Amendment 1 to Loan Agreement SW120863010. We ask that you either confirm or amend this understanding.

We will perform the audit of the City of Palmetto, Florida's Schedule of Loan Related Revenue and Federal Expenditures for the State Revolving Fund Loan Agreement SW120863010 project specific program within twelve months after the amendment establishing the final project costs so as to satisfy the program specific audit requirements imposed by the State Revolving Fund Loan Agreement, the Single Audit Act and U. S. Office of Management and Budget (OMB) Circular No. A-133. The purpose of our audit is to report on compliance that includes an opinion as to whether the City of Palmetto, Florida, has complied, in all material respects, with laws, regulations and provisions of the State Revolving Fund Loan Agreement as they related to the Schedule of Loan Related Revenue and Federal Expenditures.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and the provisions of the Single Audit Act, OMB Circular A-133 and the OMB's Compliance Supplement. Those standards, circulars, supplements or guides require we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the schedule is free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. Accordingly, a material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets, may remain undetected. The determination of abuse is subjective; therefore, Government Auditing Standards do not expect us to provide reasonable assurance of detecting abuse. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit will provide a reasonable basis for our report.

In addition to our report on the City of Palmetto, Florida's Schedule of Loan Related Revenue and Federal Expenditures for the State Revolving Fund Loan Agreement, we will also issue the following reports and schedules:

- A report on internal control related to the federal program, which will describe the scope of testing of internal control and the results of our tests;
- A report on compliance with laws, regulations and the provisions of contracts or grant agreements which could have a direct and material effect on the federal program;
- A schedule of findings and questioned costs for the federal program.

Our report on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of our obtaining an understanding of internal control and the performance of tests of internal control over the federal program consistent with the requirements of the standards identified above. Our report on compliance will address errors, fraud, abuse, violations of compliance requirements and other responsibilities imposed by state and federal statutes and regulations and assumed by contracts consistent with the requirements of the standards identified above.

If circumstances relating to the conditions of your records and/or the availability of sufficient, competent evidential matter, or indications of a significant risk of material misstatement of the schedule because of error, fraudulent reporting, misappropriation of assets or noncompliance, which in our professional judgment prevent us from completing the audit, we retain the unilateral right to take any course of action permitted by professional standards, including withdrawal from the engagement.

As you know, management is responsible for: (1) preparation of the City of Palmetto's Schedule of Loan Related Revenue and Federal Expenditures; (2) establishing and maintaining effective internal control over financial reporting and safeguarding assets and internal control over compliance, and for informing us of all deficiencies in the design or operation of such controls of which it has knowledge, (3) properly recording transactions in the records, (4) identifying and ensuring that the City of Palmetto, Florida, complies with the laws and regulations applicable to its Federal Program and for informing us about all known material violations of such laws or regulations, (5) the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control and others where the fraud could have a material effect on the Federal Program, (6) informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, regulators, or others, (7) making us aware of significant vendor relationships where the vendor is responsible for program compliance, (8) making all financial records and related information available to us, (9) following up and taking corrective action on audit findings, including preparation of a corrective action plan, and (10) report distribution including submitting the reporting package. At the conclusion of our audit, we will request certain written representations from management about the federal program and matters related thereto.

The City Commission is responsible for informing us of its views about the risks of fraud within the entity and its knowledge of any fraud, suspected fraud or abuse affecting the federal program. We will also determine that certain matters related to the conduct of the audit are communicated to the City Commission including: (1) fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (2) illegal acts or abuse that come to our attention (unless they are clearly inconsequential), (3) disagreements with management and other serious difficulties in performing the audit, and (4) various matters related to the entity's accounting policies and Schedule of Loan Related Revenue and Federal Expenditures.

The City of Palmetto, Florida, hereby indemnifies CPA Associates and its partners, principals, and employees and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the City of Palmetto, Florida's management regardless of whether such person was acting in the City of Palmetto, Florida's interest. This indemnification will survive termination of this letter.

During the course of our engagement, we may accumulate records containing data which should be reflected in your books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by your personnel, including the preparation of schedules and analyses of accounts will be discussed and coordinated with Karen Simpson, Property Clerk of Finance. The timely completion of this work will assist us in performing our work efficiently.

Our fees are based upon the time required by the individuals assigned to the engagement, plus direct expenses. We estimate our fee for these audit services will not exceed \$6,500. This fee estimate will be subject to adjustments based on unanticipated changes in the scope of our work and/or the incomplete or untimely receipt by us of information you are to provide. All other provisions of this letter will survive any fee adjustment. We will submit our bill for these services promptly upon rendering the report. Billings are due upon submission.

The working papers for this engagement are the property of CPA Associates. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U. S. Government Accountability Office shall have access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested work papers will be provided under the supervision of CPA Associates audit personnel and at a location designated by our Firm.

City of Palmetto, Florida
April 10, 2008
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In the event we are requested or authorized by the City of Palmetto, Florida, or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the City of Palmetto, Florida, the City of Palmetto, Florida, will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

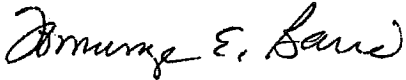
This letter constitutes the complete and exclusive statement of agreement between CPA Associates and the City of Palmetto, Florida, superseding all proposals oral or written and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report accompanies this letter.

If this letter defines the arrangements as you understand them, please sign and date one of the enclosed originals and return it to us. We appreciate your business.

For the Firm,

CPA Associates



Tommye E. Barie, CPA

RESPONSE:

This letter correctly sets forth the understanding of the City of Palmetto, Florida.

Officer Signature: _____

Title: _____

Date: _____

**STATE REVOLVING FUND
AMENDMENT 1 TO LOAN AGREEMENT SW120863010
CITY OF PALMETTO**

This amendment is executed by the STATE OF FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION (Department) and the CITY OF PALMETTO, FLORIDA, (Local Government) existing as a local government agency under the laws of the State of Florida.

WITNESSETH:

WHEREAS, the Department and the Local Government entered into a State Revolving Fund Loan Agreement, Number SW120863010, authorizing a Loan amount of \$2,928,000, excluding Capitalized Interest; and

WHEREAS, the Project costs need adjustment to reflect actual costs; and

WHEREAS, the Semiannual Loan Payment amount needs revision to reflect adjustment of Project costs and the twelve Semiannual Loan Payments received by the Department from the Local Government; and

WHEREAS, revised provisions for audit and monitoring are needed; and

WHEREAS, revision of Section 10.06, PROJECT SCHEDULE, is necessary to establish a date for the Local Government to submit the required annual certification; and

WHEREAS, the definition of Project needs revision to update the contracts.

NOW, THEREFORE, the parties hereto agree as follows:

1. Subsection 1.01(15) of the Agreement is deleted and replaced as follows:

“Project” shall mean the works financed by this Loan and shall consist of furnishing all labor, materials, and equipment to construct the City of Palmetto stormwater drainage improvements in accordance with the plans and specifications accepted by the Department for the following contracts:

- (a) 10th Street West and 10th Avenue West Drainage Improvement Project.
- (b) B-3, Oakridge Subdivision Drainage Improvements.
- (c) System G-3, Stormwater Improvements.

The Project also includes the purchase of land.

The Project is in agreement with the City of Palmetto Stormwater Facilities Plan, dated November 1998. Approval of this Project is provided by the Florida Categorical Exclusion Notification dated April 23, 1999. The Project is not an Equivalency Project as defined in Chapter 62-504, Florida Administrative Code.

2. The total principal amount loaned to the Local Government was \$2,944,185.64, which consisted of \$2,872,229.00 disbursed to the Local Government, the Loan Service Fee of \$55,771.00 disbursed directly to the Department, and \$16,185.64 of accrued Capitalized Interest.

3. The unpaid principal of the Loan is \$2,122,184.02 at an interest rate of 3.03 percent per annum, which amount accounts for the Department's receipt of twelve Semiannual Loan Payments.

4. The Semiannual Loan Payment amount, adjusted to account for repayments received to date, is hereby revised and shall be in the amount of \$93,565.22. Such payments shall be received by the Department on October 15, 2007 and Semiannually thereafter on April 15 and October 15 of each year until all amounts due hereunder have been fully paid.

The Semiannual Loan Payment amount is based on the total amount owed of \$2,122,184.02

5. Subsections 2.01(10) and 2.01(11) of the Agreement are deleted and replaced by Section 2.03 AUDIT AND MONITORING REQUIREMENTS.

The Local Government agrees to the following audit and monitoring requirements.

(1) The financial assistance authorized pursuant to this Loan Agreement consists of the following:

Federal Resources, Including State Match, Awarded to the Recipient Pursuant to this Agreement Consist of the Following:					
Federal Program Number	Federal Agency	CFDA Number	CFDA Title	Funding Amount	State Appropriation Category
CS120001-990	EPA	66.458	Capitalization Grants for State Revolving Funds	\$2,928,000	140131

(2) Audits.

(a) In the event that the Local Government expends \$500,000 or more in Federal awards in its fiscal year, the Local Government must have a single or program-specific audit conducted in accordance with the provisions of OMB Circular A-133, as revised. Subsection 2.03(1) of this Agreement indicates that Federal funds are awarded through the Department of Environmental Protection by this Agreement. In determining the Federal awards expended in its fiscal year, the Local Government shall consider all sources of Federal awards, including Federal resources received from the Department of Environmental Protection. The determination of amounts of Federal awards expended should be in accordance with the guidelines established by OMB Circular A-133, as revised. An audit of the Local Government conducted by the Auditor General in accordance with the provisions of OMB Circular A-133, as revised, will meet the requirements of this part.

(b) In connection with the audit requirements addressed in the preceding paragraph (a), the Local Government shall fulfill the requirements relative to auditee responsibilities as provided in Subpart C of OMB Circular A-133, as revised.

(c) If the Local Government expends less than \$500,000 in Federal awards in its fiscal year, an audit conducted in accordance with the provisions of OMB Circular A-133, as revised, is not required. In the event that the Local Government expends less than \$500,000 in Federal awards in its fiscal year and elects to have an audit conducted in accordance with the provisions of OMB Circular A-133, as revised, the cost of the audit must be paid from non-Federal resources (i.e., the

cost of such an audit must be paid from Local Government resources obtained from other than Federal entities).

(d) The Local Government may access information regarding the Catalog of Federal Domestic Assistance (CFDA) via the internet at <http://aspe.os.dhhs.gov/cfda>.

(3) Report Submission.

(a) Copies of reporting packages for audits conducted in accordance with OMB Circular A-133, as revised, and required by Subsection 2.03(2) of this Agreement shall be submitted, when required by Section .320 (d), OMB Circular A-133, as revised, by or on behalf of the Local Government directly to each of the following:

(i) The Department of Environmental Protection at each of the following addresses:

Don W. Berryhill, P.E., Chief
Bureau of Water Facilities Funding
Florida Department of Environmental Protection
2600 Blair Stone Road, MS 3505
Tallahassee, Florida 32399-2400

Joe Aita, Audit Director
Office of the Inspector General
Florida Department of Environmental Protection
3900 Commonwealth Boulevard, MS41
Tallahassee, Florida 32399-3123

(ii) The Federal Audit Clearinghouse designated in OMB Circular A-133, as revised (the number of copies required by Sections .320 (d)(1) and (2), OMB Circular A-133, as revised, should be submitted to the Federal Audit Clearinghouse), at the following address:

Federal Audit Clearinghouse
Bureau of the Census
1201 East 10th Street
Jeffersonville, IN 47132

(iii) Other Federal agencies and pass-through entities in accordance with Sections .320(e) and (f), OMB Circular A-133, as revised.

(b) Pursuant to Section .320(f), OMB Circular A-133, as revised, the Local Government shall submit a copy of the reporting package described in Section .320(c), OMB Circular A-133, as revised, and any management letters issued by the auditor, to the Department of Environmental Protection at the two addresses listed under Subsection 2.03(3)(a) of this Agreement.

(c) Any reports, management letters, or other information required to be submitted to the Department of Environmental Protection pursuant to this Agreement shall be submitted timely in accordance with OMB Circular A-133, Florida Statutes, or Chapters 10.550 (local governmental entities) or 10.650 (nonprofit and for-profit organizations), Rules of the Auditor General, as applicable.

(d) Local Governments, when submitting financial reporting packages to the Department of Environmental Protection for audits done in accordance with OMB Circular A-133, or Chapters

10.550 (local governmental entities) or 10.650 (nonprofit and for-profit organizations), Rules of the Auditor General, should indicate the date that the reporting package was delivered to the Local Government in correspondence accompanying the reporting package.

(4) Project-Specific Audit.

Within 12 months after the amendment establishing final Project costs, the Local Government shall submit to the Department a Project-specific audit report for the Loan related revenues and expenditures. The audit shall address Loan disbursements received, Project expenditures, and compliance with Loan Agreement covenants. The Local Government shall cause the auditor to notify the Department immediately if anything comes to the auditor's attention during the examination of records that would constitute a default under the Loan Agreement. The audit findings shall set aside or question any costs that are unallowable under Chapter 62-503, Florida Administrative Code. A final determination of whether such costs are allowed shall be made by the Department.

(5) Record Retention.

The Local Government shall retain sufficient records demonstrating its compliance with the terms of this Agreement for a period of three years from the date the audit report is issued, and shall allow the Department of Environmental Protection, or its designee, Chief Financial Officer, or Auditor General access to such records upon request. The Local Government shall ensure that audit working papers are made available to the Department of Environmental Protection, or its designee, Chief Financial Officer, or Auditor General upon request for a period of three years from the date the audit report is issued, unless extended in writing by the Department of Environmental Protection.

(6) Monitoring.

In addition to reviews of audits conducted in accordance with OMB Circular A-133, as revised (see audit requirements above), monitoring procedures may include, but not be limited to, on-site visits by Department staff, limited scope audits as defined by OMB Circular A-133, as revised, and/or other procedures. By entering into this Agreement, the Local Government agrees to comply and cooperate with any monitoring procedures/processes deemed appropriate by the Department of Environmental Protection. In the event the Department of Environmental Protection determines that a limited scope audit of the Local Government is appropriate, the Local Government agrees to comply with any additional instructions provided by the Department to the Local Government regarding such audit. The Local Government further agrees to comply and cooperate with any inspections, reviews, investigations, or audits deemed necessary by the Chief Financial Officer or Auditor General.

6. Section 10.06, PROJECT SCHEDULE, is amended as follows:

(6) The date for the certification required under Subsection 2.01(12) of the Agreement is hereby revised. The annual certification shall be submitted no later than September 30 of each year until the final Semiannual Loan Repayment is made.

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7. Project Costs are revised as follows:

The Local Government and the Department acknowledge that changes in Project costs may occur as a result of the Local Government's Project audit or a Department audit pursuant to Chapter 62-503 of the Florida Administrative Code. Unless this Agreement is amended subsequent to an audit, the following Project disbursements shall be final.

CATEGORY	DISBURSED
Planning Allowance	15,478.00
Engineering Allowance	193,472.00
Construction and Demolition	2,469,487.00
Land	135,000.00
Technical Services During Construction	205,772.00
Less Local Funds/Grant	(230,637.00)
SUBTOTAL	2,788,572.00
Loan Repayment Reserve*	83,657.00
SUBTOTAL (Disbursed to Local Government)	2,872,229.00
Loan Service Fee*	55,771.00
SUBTOTAL (Total Disbursed)	2,928,000.00
Capitalized Interest	16,185.64
TOTAL (Loan Principal Amount)	2,944,185.64

*The Loan Repayment Reserve and Loan Service Fee line items reflect amounts set by the Agreement.

All other terms and provisions of the Loan Agreement shall remain in effect.

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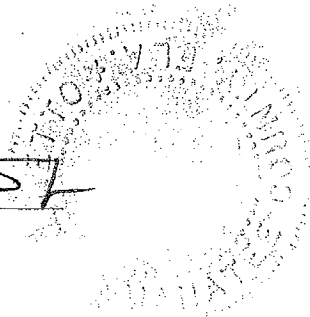
This Amendment 1 to Loan Agreement SW120863010 shall be executed in three or more counterparts, any of which shall be regarded as an original and all of which constitute but one and the same instrument.

IN WITNESS WHEREOF, the Department has caused this amendment to the Loan Agreement to be executed on its behalf by the Deputy Director, and the Local Government has caused this amendment to be executed on its behalf by its Authorized Representative and by its affixed seal. The effective date of this amendment shall be as set forth below by the Deputy Director.

for
CITY OF PALMETTO



Mayor



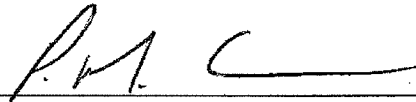
Attest



City Clerk

SEAL

for
STATE OF FLORIDA
DEPARTMENT OF ENVIRONMENTAL PROTECTION



Deputy Director
Division of Water Resource Management

OCT 04 2007
Date

Repayment Schedule

Sponsor: Palmetto

Project Number: 863010

Original Loan		Interest: 1.515%		GAA Rate: 1.515%				
Date	Pmt. No.	Payment	Serv. Fee Paid	SF Interest	Interest	Grt. All. Assmt.	Principal Paid	Total to Pay*
4/15/2001								1,758,875.64
10/15/2001	1	100,744.00			12,354.01	12,354.01	76,035.98	2,049,487.66
4/15/2002	2	100,744.00			15,475.02	15,475.02	69,793.96	1,979,693.70
10/15/2002	3	100,744.00			14,996.18	14,996.18	70,751.64	1,925,213.06
4/15/2003	4	100,744.00			14,500.76	14,500.76	71,742.48	1,853,470.58
10/15/2003	5	100,744.00			14,040.04	14,040.04	72,663.92	2,474,953.66
4/15/2004	6	100,744.00			15,333.57	15,333.57	70,076.86	2,513,120.80
10/15/2004	7	100,744.00			18,859.42	18,859.42	63,025.16	2,450,095.64
4/15/2005	8	100,744.00			18,559.47	18,559.47	63,625.06	2,386,470.58
10/15/2005	9	100,744.00			18,077.51	18,077.51	64,588.98	2,321,881.60
4/15/2006	10	100,744.00			17,588.25	17,588.25	65,567.50	2,256,314.10
10/15/2006	11	100,744.00			17,091.58	17,091.58	66,560.84	2,189,753.26
4/15/2007	12	100,744.00			16,587.38	16,587.38	67,569.24	2,122,184.02
10/15/2007	13	93,565.22			16,075.55	16,075.55	61,414.13	2,060,769.89
4/15/2008	14	93,565.22			15,610.33	15,610.33	62,344.56	1,998,425.33
10/15/2008	15	93,565.22			15,138.07	15,138.07	63,289.08	1,935,136.25
4/15/2009	16	93,565.22			14,658.66	14,658.66	64,247.91	1,870,888.34
10/15/2009	17	93,565.22			14,171.98	14,171.98	65,221.26	1,805,667.08
4/15/2010	18	93,565.22			13,677.93	13,677.93	66,209.36	1,739,457.72
10/15/2010	19	93,565.22			13,176.39	13,176.39	67,212.44	1,672,245.28
4/15/2011	20	93,565.22			12,667.26	12,667.26	68,230.70	1,604,014.58
10/15/2011	21	93,565.22			12,150.41	12,150.41	69,264.40	1,534,750.18
4/15/2012	22	93,565.22			11,625.74	11,625.74	70,313.75	1,464,436.43
10/15/2012	23	93,565.22			11,093.11	11,093.11	71,379.01	1,393,057.42
4/15/2013	24	93,565.22			10,552.41	10,552.41	72,460.40	1,320,597.02
10/15/2013	25	93,565.22			10,003.52	10,003.52	73,558.18	1,247,038.84
4/15/2014	26	93,565.22			9,446.32	9,446.32	74,672.58	1,172,366.26
10/15/2014	27	93,565.22			8,880.67	8,880.67	75,803.87	1,096,562.39
4/15/2015	28	93,565.22			8,306.46	8,306.46	76,952.30	1,019,610.09
10/15/2015	29	93,565.22			7,723.55	7,723.55	78,118.13	941,491.96
4/15/2016	30	93,565.22			7,131.80	7,131.80	79,301.62	862,190.34
10/15/2016	31	93,565.22			6,531.09	6,531.09	80,503.04	781,687.30
4/15/2017	32	93,565.22			5,921.28	5,921.28	81,722.66	699,964.64
10/15/2017	33	93,565.22			5,302.23	5,302.23	82,960.76	617,003.88
4/15/2018	34	93,565.22			4,673.81	4,673.81	84,217.61	532,786.27
10/15/2018	35	93,565.22			4,035.86	4,035.86	85,493.51	447,292.76
4/15/2019	36	93,565.22			3,388.24	3,388.24	86,788.73	360,504.03
10/15/2019	37	93,565.22			2,730.82	2,730.82	88,103.58	272,400.45
4/15/2020	38	93,565.22			2,063.43	2,063.43	89,438.35	182,962.10
10/15/2020	39	93,565.22			1,385.94	1,385.94	90,793.34	92,168.76
4/15/2021	40	93,565.12			698.18	698.18	92,168.76	0.00
		3,828,754.06			442,284.21	442,284.21	2,944,185.64	

*Total to pay may reflect activity during repayment term.

Calculation of Semiannual Payment for Remaining Years

Sponsor: Palmetto

Project Number: 863010

Beginning of Repayment Period: 4/15/2001

Payments Remaining: 28

Original Loan		Combined Rate: 3.03%				
Date	Balance Forward	Disbursement Or Serv. Fee	Comb. Int At 10/15/2007	Total Owed At 10/15/2007	Present Value* At 4/15/2007	Payment Amount
4/15/2007	2,122,184.02		32,151.08	2,154,335.10		
Totals				2,154,335.10	2,122,184.01	93,565.22

*Present value is the total owed divided by (1+(combined interest rate)/2).