

Independent Auditor's Management Letter

To the Honorable Board of County
Commissioners of Lee County, 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 Lee County, Florida (the "County") as of and for the year ended September 30, 2012, and have issued our report thereon dated March 11, 2013.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Report of Independent Auditor 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*, Report of Independent Auditor on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Awards Program and State Financial Assistance Project and on Internal Control Over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 11, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with 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 auditor's 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 with respect to the Board of County Commissioners (the "Board") except as noted in appendix A under the heading Prior Year Findings and Recommendations. With respect to the Clerk of the Circuit Court, Property Appraiser, Sheriff, Supervisor of Elections, and Tax Collector (collectively the "County agencies"), reference to whether corrective actions have been taken is provided in separate management letters for each County agency.

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 of the financial statements of the County, nothing came to our attention that would cause us to believe that the County was in noncompliance with Section 218.415 regarding the investment of public funds.

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 of the Board, we did not have any such findings. Reference to such matters is provided in separate letters for each County agency, where applicable.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, 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 findings other than those reported in the Schedule of Findings and Questioned Costs.

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 statements, 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. Reference to such matters is provided in Appendix A for the Board. We did not audit the responses to our recommendations, which are also provided in Appendix A, and, accordingly, we express no opinion on them. Reference to such matters is provided in separate management letters for each County agency, where applicable.

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 the management letter, unless disclosed in the notes to the financial statements. Such disclosure is included in the notes to the financial statements.

Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit of the financial statements of the County, the results of our tests did not indicate the County met any of the specified conditions of a financial emergency contained in Section 218.503(1). However, our audit does not provide a legal determination on the County's compliance with this requirement.

Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the County for the fiscal year ended September 30, 2012, 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, 2012. Our comparison of the financial report filed with the Florida Department of Financial Services to the County's 2012 audited financial statements resulted in no material differences.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures as of September 30, 2012. It is management's responsibility to monitor the County'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 letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and State granting agencies, applicable management, and the Board of County Commissioners of Lee County, Florida, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Cherry Bekart LLP". The signature is written in a cursive, flowing style.

Tampa, Florida
March 11, 2013

LEE COUNTY, FLORIDA

APPENDIX A - MANAGEMENT LETTER COMMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Observation 2011-A

Statement of Condition: The Clerk's Finance and Records Department periodically reviews construction in progress with the County departments to determine which projects should be capitalized and depreciated. However, we noted during our audit that the governmental activities construction in progress balance at September 30, 2012 included certain projects that had been completed or abandoned before year-end.

Criteria: Construction in progress projects should be reclassified to depreciable assets once substantially completed and available for service. If the County determines a project is no longer viable, the construction in progress should be expensed.

Effect of condition: Construction in progress for governmental activities in the amount of \$11,841,000 was not reclassified as depreciable assets at September 30, 2012, and related depreciation expense and accumulated depreciation were not recorded. In addition, \$912,000 of construction in progress should have been expensed for projects that were abandoned.

Cause of condition: The process in place for notification of when construction in progress is substantially complete and available for service or when projects are no longer viable, was not sufficient to identify such projects for proper recording.

Recommendation: We recommend that County departments be more diligent in reviewing the status of construction in progress and notify the Clerk's Finance and Records Department when projects are substantially complete and available for service or when they determine a project should be abandoned.

Management's response: We concur with the finding and will take the following steps going forward:

- Additional meetings will be scheduled with all the departments with construction in progress this year to review all outstanding projects
- Summary worksheets of each project balance will be provided to the project manager. A summary of capitalization guidelines will be included to assist them in making a determination as to each project's status
- Specific assistance will be provided to the following departments due to the volume and age of their construction in progress projects: Department of Transportation, Department of Natural Resources, Construction & Design, Facilities Management, and Information Technology Group.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Observation 2012-A

Statement of Condition: During our testing of Non-Ad Valorem taxes, it was noted that \$774,071 of FPL Electric Franchise Fees, were not accrued and recorded as revenue.

Criteria: Accounting principles state that revenues are to be recorded when earned.

LEE COUNTY, FLORIDA

APPENDIX A - MANAGEMENT LETTER COMMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

Effect of Condition: Accounts receivable and revenue were understated by \$774,071.

Cause of Condition: The County did not properly post the correct date the revenue was earned in their accounting system and no review was performed of the account to verify twelve revenue receipts were recorded before the close of the fund.

Recommendation: We recommend that the County's Finance and Records Department review the FPL Electric Franchise Fee account at the end of the fiscal year to verify that twelve revenue receipts have been recorded.

Management's Response: The Finance Business Information Analyst ("FBIA") group is creating a BI exception report for predetermined accounts that receive monthly revenue to ensure we account for all payments. The report will alert us if an account has less than or more than 12 annual payments.

Observation 2012-B

Statement of Condition: During our testing of Solid Waste's accounts receivable balance, it was noted that \$1,181,056 of receivables and revenue were not properly accrued and recorded.

Criteria: Accounting principles state that revenues are to be recorded when earned.

Effect of Condition: Accounts receivable and revenue were understated by \$1,181,056.

Cause of Condition: Receivables were missed as a result of improper updating of a manual supporting schedule.

Recommendation: We recommend that accounting check with the preparer of the worksheet after the receivable has been recorded to verify the amounts were properly recorded.

Management's Response: We concur with the finding; going forward the Solid Waste department will separate the year end accounts receivable accrual process into two parts in order to reduce the size and complexity of the Excel workbook. The first part will be a workbook and journal entry for the regular September 30th monthly billing. The second part will be a workbook and journal entry for the remaining accounts receivable items that are accrued each year. Combining both of these into a single Excel workbook creates the potential for linking and summarization errors due to the number of workbook tabs