CHERRY BEKAERT& HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' 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, 2011, and have issued our report thereon dated March 8, 2012.

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*. We have issued our 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, Independent Auditors’ Report 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 8, 2012, 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 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. There were no findings and recommendations made in the preceding annual financial audit report with respect to the Board of County Commissioners (the “Board”). 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, 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, 2011, 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, 2011. Our comparison of the financial report filed with the Florida Department of Financial Services to the County's 2011 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, 2011. 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 management, the Board of County Commissioners of Lee County, Florida, the Florida Auditor General and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Orlando, Florida
March 8, 2012

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, 2011 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 $8,061,000 was not reclassified as depreciable assets at September 30, 2011, and related depreciation expense and accumulated depreciation were not recorded. In addition, the County expensed $1,242,000 of construction in progress for a project that was 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 have asked our external auditors to provide instruction to the Board's fiscal personnel on this matter, including the importance of capitalizing or writing off construction in progress in a timely manner.

Observation 2011-B

Statement of Condition: The cost of interest related to borrowings on construction in progress had not been sufficiently capitalized prior to audit review.

Criteria: Accounting principles state that interest shall be capitalized for assets in enterprise funds that are constructed for the enterprise's own use if the effect of expensing such interest is material.

Effect of condition: Capitalized interest cost related to construction in progress was recalculated and recorded in the amount of approximately $1 million.

Cause of condition: The calculation of capitalized interest had not included all construction in progress on which interest was to be capitalized.

Recommendation: We recommend that the Clerk's Finance and Records Department review construction in progress annually and determine the amount of interest that should be capitalized.

Management's response: The issue was related to accruing interest for construction in progress based on the total amount of construction in progress rather than the amount that was capitalized in the current year. This has been corrected.

Observation 2011-C

Statement of Condition: During our testing of cash management compliance for the Emergency Operations Center State grant, it was noted that $138,000 of expenditures, out of $849,000 in total, were not requested for reimbursement in the annual reimbursement request.

Criteria: Reimbursements requests should include all expenditures for which the County has disbursed payment to vendors for the specific time period.

Effect of Condition: Reimbursement for certain invoices was not requested and the County did not receive all of the monies to which it was entitled in a timely manner, which could result in cash flow issues for the program.

Cause of Condition: The County did not reconcile the reimbursement request to the accounting records.

Recommendation: We recommend that management establish a process to reconcile to the accounting records when preparing reimbursement requests.

Management's Response: Future requests for reimbursement will be made in the same year that they were expended.

Observation 2011-D

Statement of Condition: The County's practice has been to write off uncollectable EMS receivables as bad debt expenditures.

Criteria: Discounts and allowances in revenue-related governmental fund accounts should be recorded as revenue reductions, rather than as bad debt expenditures.

Effect of Condition: EMS revenues and bad debt expenditures were overstated by $6,106,000. This also created a financial statement budget variance because bad debt expenditures have been recorded but not budgeted.

Cause of Condition: The long-standing County practice has been to record all uncollectable receivables as bad debt expenditures.

Recommendation: We recommend that management modify accounting practices to reduce revenue for uncollectable revenue-related governmental fund accounts receivable.

Management's Response: We will look at this issue in the upcoming fiscal year and handle it appropriately.