

City of Hollywood, Florida

Management Letter in Accordance With
Chapter 10.550, Rules of the Auditor General of the State of Florida
September 30, 2011

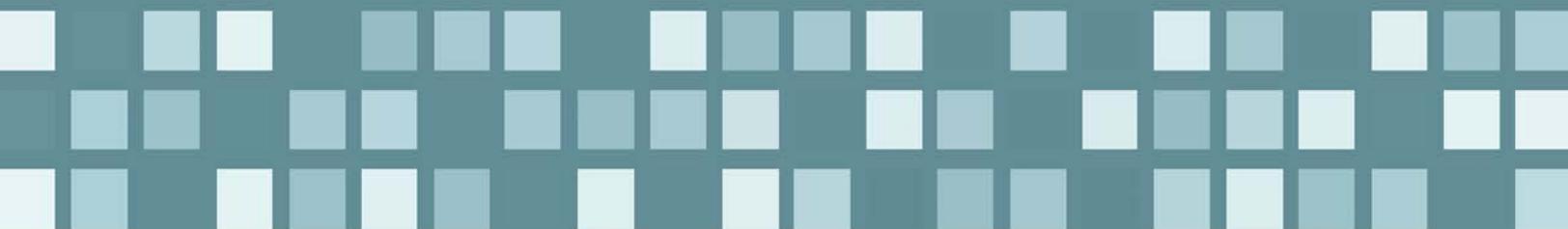


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**Management Letter Required By
Chapter 10.550 of the Rules of the
Auditor General of the State of Florida**

To the Honorable Mayor, Members of the
City Commission and City Manager
City of Hollywood, 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 Hollywood, Florida (the "City") as of and for the fiscal year ended September 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 27, 2012. Our report was modified to include a reference to other auditors and to include a reference to the adoption of the recognition and disclosure requirements of Governmental Accounting Standards Board Statement No.54, Accounting for Fund Balance Reporting and Governmental Fund Type Definition, during fiscal year 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 States, Local Governments and Non-Profit Organizations*. The financial statements of the Hollywood Fire Fighters' Pension System and the City of Hollywood Police Officers' Retirement System were not audited in accordance with Government Auditing Standards. We have issued our 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, dated March 31, 2011, and Independent Auditor's 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 April 27, 2011 and June 21, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which governs the conduct of local government 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, except for those reported below under the heading "Prior Year's Recommendations to Improve Financial Management Accounting Procedures and Internal Controls" listed in Appendix B to this report.

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, relating to local government investment policies.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve the City's financial management. The recommendations to improve the City's financial management have been addressed in Appendix A to this report.

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 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. In connection with our audit, see Appendices A and B of this report.

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. This information is disclosed in Note 1 of the City's 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, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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, 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. In connection with our audit, we determined that the annual financial report is in agreement with the annual financial audit report.

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. Our assessment procedures of the City in the current year led us to believe that City's overall financial condition is deteriorating. See Appendix A.

Pursuant to Chapter 119, Florida Statutes, this management letter is 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 the Honorable Mayor, City Commission, management of the City, the Florida Auditor General, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Fort Lauderdale, Florida
June 21, 2012

City of Hollywood, Florida

Appendix A
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2011

Number	Current Year Observations
ML 2011-01	Financial Condition

Appendix A
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2011

Current Year Suggestions

ML 2011-01 Financial Condition

Criteria: Management and those charged with governance should set attainable policies and procedures to ensure that the City is able to meet budgets, fund policies, upcoming obligations, and other goals in a manner that preserves and protects its fiscal solvency in order to provide services at the level and quality that are required for health, safety, and welfare of its citizenry.

Condition: Our review of the City's financial condition assessment as of and for the year ended September 30, 2011, noted the following decline in certain key financial indicators:

- 1) The City's unassigned general fund balance showed an ending balance as follows, \$0, \$9162,755, and \$14,670,129 for fiscal years 2011, 2010, and 2009 respectively.
- 2) The following key indicators were deemed unfavorable due to a declining trend as follows:
 - a. Unrestricted Net Assets to Operating Revenues
 - b. Unassigned/ Assigned Balances to Total Revenues and to Total Expenditures
 - c. Cash and Investments to Operating Expenses, Expenditures, and Current Liabilities
 - d. Excess Revenue over/under Expenses to Total Revenue

Effect: Continued deterioration in financial condition could result in financial emergency as defined by section 218.503 (1) Florida Statutes.

Cause: Significant decline in the City's key revenue stream and continued increases in operating expenditures, including but not limited to increasing levels of required contribution to the pension funds.

Recommendation: We acknowledge that City leaders and management have taken action steps to specifically address their financial condition, such as, the declaration of financial urgency, amendments to the pension plans to modify benefits, and a rollback of salaries for employees. We recommend that the City explore revenue enhancement opportunities, as well as continue its cost-management activities. The City should evaluate and perform a "spend analysis" and determine if it is benefitting from its maximum buying power and maximizing all purchase discounts. Management should continue to utilize the budget process as a tool to monitor and track financial performance.

Views of Responsible Officials and Planned Corrective Actions: Mid-way through fiscal year 2011, the City discovered that the 2011 adopted budget was projected to have a revenue shortfall of approximately \$10 million in the General Fund. The City immediately took corrective steps upon this discovery and reduced expenditures budgets across the board by several million dollars. The Budget Director and the City Manger at that time are no longer employed by the City. To further address this situation, the City declared financial urgency under Florida Statutes Sec. 447.4095 for fiscal year 2011 and ultimately extended it into fiscal year 2012. The City imposed across the board wage and benefit reductions ranging from 10% to 12.5% to all employees. The City was able to reduce the projected shortfall for fiscal year 2011 from the initial projected \$10 million to an actual \$5 million at fiscal year end. Labor attorneys were brought in by the City to consult on the collective bargaining and pension issues associated with Financial Urgency. The declaration of financial urgency allowed the City to make changes to collective bargaining agreements to avert the downward trend toward financial emergency. This step was taken to allow the City to address personal service costs which represent over 75 percent of General Fund expenditures.

Appendix A
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2011

A special referendum was held on September 13, 2011 in which City voters approved pension plan changes to all three City sponsored pension plans. Those pension changes reduced the City's required contribution by a combined estimated \$8.5 million in fiscal year 2012. In addition, the pension plan changes reduced the City unfunded liabilities for the three pension plans by a combined amount in excess of \$66 million – a reduction of over 20 percent.

The City brought in outside consultants to review the City's revenue estimating process as well as management consultants to review other areas of City operations. As a result of recommendations received, the City has revised its budget process for revenue estimating and the Budget Office has been reorganized as reporting to the Finance Director instead of reporting directly to the City Manager. As a result, a much more conservative revenue projection approach was used in preparing the fiscal year 2012 General Fund revenue estimates.

The City, like most other cities, has been battling budgetary issues for the past several years and expects to be doing so for future years as well. The steps the City has taken during fiscal year 2011 and in preparation of the fiscal 2012 budget should put its General Fund on a much sounder fiscal footing by the end of fiscal year 2012. Also, during fiscal year 2011, the City Commission adopted a fund balance policy recommended by the Finance Director to build rebuild its General Fund unassigned fund balance to a targeted goal of 17% (the equivalent of 2 months reserves) of General Fund Expenditures and Transfers Out. The City's fund balance policy will prohibit the use of reserves that occurred in prior fiscal years and reduced the size of the financial cushion available to absorb impacts such as the revenue shortfall which occurred in fiscal year 2011. In addition, as part of the fiscal year 2012 budget, the City Commission imposed additional property taxes in the amount of \$4.2 million to assist in restoring the fund balance in the City's General Fund. The initial estimate from the Broward County Property Appraiser's Office indicates small but positive growth in the City's assessed value for fiscal year 2013 after several years of decline.

A spend analysis might provide some future benefit to the overall financial performance of the City. At this point in time, the City is more focused on personal services costs – which comprise a larger percentage of the City's expenditures.

City of Hollywood, Florida

Appendix B

Prior Year Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls

Fiscal Year Ended September 30, 2011

Number	Prior Years Observation	Observation is Still Relevant	Observation Addressed and is No Longer Relevant
ML 2010-01	Preparation for Government Accounting Standards Board ("GASB") Statement No. 54		X
ML 2010-02	Pension Plans' Unfunded Liability	See similar comment ML 2011-01	
ML 2009-03	Timely Review of Bank Statements	See IC Comment in Compliance Report	