



KIRKLAND, RUSS, MURPHY & TAPP

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A Professional Association

March 31, 2010

RECEIVED
APR 08 2010
CITY OF MARCO ISLAND

Ms. Patricia Bliss
Finance Director
City of Marco Island
50 Bald Eagle Drive
Marco Island, Florida 34145

Dear Patricia:

As you know, the audit has in no way gone as we or the City expected because of numerous issues in providing us information to perform our audit in a timely and efficient matter. In my email of January 11th (copy attached), I discussed some of these matters and the difficulties and inefficiencies that had resulted. We sent you a draft of the Comprehensive Annual Financial Report (CAFR) on January 20th and have not had any feedback from you on it even though at the time you told me you would need a final draft of the CAFR by March 1st for inclusion in a Preliminary Official Statement (POS) for a bond offering. As you know, the draft CAFR reflected several areas where interfund transactions did not balance, fund balances did not roll forward, schedules and disclosures were incomplete, etc., all of which were on our pending list at that time and are still not resolved. Unfortunately we were not able to provide you with a final draft CAFR by March 1st and we continue to have a number of outstanding items on the pending list (copy attached).

As we mentioned during orals when we proposed on this engagement we estimated 600 hours for the first year's audit. During our oral presentation someone asked how we could make any money on the engagement and I indicated we had budgeted a lot of first year time to do the engagement right and that we expected future hours to be under 500 a year, which is a reasonable number of hours for a City the size and complexity of Marco Island. As of March 15th we had 873 hours in the engagement. We anticipate an additional 80 hours to wrap up the engagement (including items still outstanding). Included in this amount were 153 hours for preparing the draft of the CAFR for the first year. Our original budget allotted 80 hours for this process so I will take responsibility for the additional 73 hours. We also had an additional major program to audit as part of the single audit and this took 40 hours to perform. As indicated in our engagement letter, we will bill an additional \$5,000 for this program. But we had a number of issues to deal with that were out of our control and resulted in us being over our budgeted hours (excluding the CAFR and additional major program) by 160 hours as of March 15th and a projected overage of approximately 240 hours in order to complete the engagement.

Below we have summarized the major issues we have had to deal with, none of which were anticipated in planning this engagement. We understand that these were somewhat out of your control because of a lack of staffing and only being able to rely on Maria to work with us in completing the audit.

- We moved time scheduled in December to January to allow for the information we needed to audit to be pulled together. Even though we had two people to work on the audit for the first two weeks of January, much of the information was still not available and Maria was not available as she was required to work on other City needs which were deemed to be a higher priority than completion of the audit. This resulted in significant inefficiencies as our team worked to get through what was available to them during this time period.
- We have kept current with every piece of information that has been sent to us since the first of January and I would venture to say we get bits and pieces each week, and as you know, we still have items outstanding. A number of inefficiencies have resulted due to the City only providing open items in a limited or sporadic fashion. When working on an engagement we are able to be most efficient when all requested information is provided at one time in order to avoid the need to work on the same section during multiple occasions. Although we could have waited until all information was provided we worked through each item as it was received in order to stay current on all outstanding items and avoid additional questions at a later day. We also expected that we were targeting for a draft of the CAFR by the end of February and therefore we would not have had enough time to complete the engagement if we did not work on each piece of information as it was received. As stated above, we have not met this deadline.
- As mentioned before and which is still the case, beginning fund balances in the utility fund are out of balance with what was reflected in last year's CAFR by over \$10 million. I know you spent a lot of effort in trying to sort out this fund into each special assessment district, but in that process, fund balances no longer rolled forward.
- Transactions between funds did not balance and we also had an out of balance situation of \$3.7 million in the due to/due from other funds accounts which was not cleared until recently.
- You have been under staffing pressure since you arrived which has resulted in Maria having almost all of the audit information requests dropped in her lap along with her normal job responsibilities which by themselves are sufficient for a full time position. Because Maria has been responsible for not only her role as the external audit contact but also for all of her other roles, Maria did not have the time to review her work prior to it being provided to us and entries were provided to us that were backwards and had to be tested and then determined to be incorrect. Although mistakes were made and you were short of staff, if another member of the management team could have reviewed Maria's work, the errors may have been caught.
- CAFR groupings were done by KRMT as management was not able to provide trial balances in that format. Prior to issuance of the CAFR management will need to review all groupings, approve the groupings, and verify that they are correct.
- It did not appear management tracked all grants so we were without an accurate schedule of expenditures of federal funds to use in selecting programs subject to single audit testing. Once we received the schedule it was determined we needed to test an additional program this year. Items to perform the single audit were provided in piecemeal resulting in inefficiencies.
- Budget amendments and supporting documentation for those amendments were not provided timely. We are still waiting on some of this information including explanations for material variances to budgeted and prior year amounts to complete this portion of the audit.

- There have been over 20 journal entries made by the City over the last two months meaning we are constantly dealing with amounts that are changing. It appears that a new fund was even added in the last couple of weeks.

We do believe we are in a position to finalize the financial statement portion of the CAFR as well as the single audit once all of the issues on our pending list have been addressed. We still need to receive from the City the Transmittal Letter, Management's Discussion and Analysis, and the Statistical Section. Until we receive these items we would not recommend scheduling an audit committee meeting. Once the items are received then we can provide management with a timeline and a meeting can be scheduled.

I am enclosing an invoice for \$18,000 representing the additional time above and beyond our budgeted hours that have resulted due to the above inefficiencies. This balance represents the projected 240 hours that we will go over our budgeted hours at a significantly reduced hourly rate of \$75 per hour.

Patricia, we know the issues you have had to face with a lack of staffing, your newness to the City, and a lot of demands put on you and your staff that have taken time away from focusing your time on the audit. You are fortunate to have someone like Maria because she does an excellent job but she can only do so much with her other responsibilities. We are anticipating that the two additional staff are allowing for a more seamless flow of information and resources and that next year the audit will go as we had planned for this year.

I am available to discuss any of the above as well as any comments or concerns you may have.

Sincerely,



Donald M. Jones, Jr.

Enclosures