

**CITY OF HOLLYWOOD, FLORIDA**  
**COMPLIANCE REPORTS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

**CITY OF HOLLYWOOD, FLORIDA**

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**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***

To the Honorable Mayor, City Commission and City Manager  
**City of Hollywood, Florida**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 6, 2019. Our report includes a reference to other auditors who audited the financial statements of the City of Hollywood Firefighters' Pension System and City of Hollywood Police Officers' Retirement System (collectively, the Plans), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing on internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Plans were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal controls over financial reporting or instances of reportable non-compliance associated with the Plans.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***City's Response to Findings***

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

Fort Lauderdale, FL  
June 6, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Commission and City Manager  
**City of Hollywood, Florida**

***Report on Compliance for Each Major Federal Program and State Project***

We have audited the City of Hollywood, Florida's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, and the requirements described in the *State of Florida Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the City's major federal programs and state project for the fiscal year ended September 30, 2018. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards and state projects applicable to its federal programs and state projects.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs and state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.550, Rules of the Auditor General. Those standards, the Uniform Guidance, and Chapter 10.550, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Each Major Federal Program and State Project***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and its state project for the fiscal year ended September 30, 2018.

### ***Report on Internal Control Over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.550, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards and State Financial Assistance  
Required by the Uniform Guidance and Chapter 10.550 Rules of the Auditor General***

We have audited the financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 6, 2019, which contained unmodified opinions on those financial statements. Our report includes reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the Uniform Guidance and Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Marcum LLP*

Fort Lauderdale, FL  
June 6, 2019

**CITY OF HOLLYWOOD, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Federal/State Agency, Pass-Through Entity, Federal Program/State Project	CFDA CFSA No.	Contract/ Grant Number	Provided to Subrecipients	Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Direct Programs				
Community Development Block Grant - Year XXXX	14.218	B-13-MC-12-0009	\$ -	\$ 3,640
Community Development Block Grant - Year XXXXI	14.218	B-14-MC-12-0009	-	222,333
Community Development Block Grant - Year XXXXII	14.218	B-15-MC-12-0009	-	80
Community Development Block Grant - Year XXXXIII	14.218	B-16-MC-12-0009	-	41,306
Community Development Block Grant - Year XXXXIX	14.218	B-17-MC-12-0009	143,649	1,403,882
Neighborhood Stabilization Program - HERA	14.218	B-08-MN-12-0010	-	22,794
Neighborhood Stabilization Program	14.218	B-11-MN-12-0010	-	1,111
				<u>1,695,146</u>
HOME Investment Partnership Program Grant	14.239	M13-MC-12-0227	123,076	151,405
HOME Investment Partnership Program Grant	14.239	M14-MC-12-0227	-	8,172
HOME Investment Partnership Program Grant	14.239	M15-MC-12-0227	-	281,692
HOME Investment Partnership Program Grant	14.239	M17-MC-12-0227	-	37,504
				<u>478,773</u>
Community Development Block Grants Section 108 Loan Guarantees	14.248	B-97-MC-12-2009	-	960,000
<b>Total U.S. Department of Housing and Urban Development</b>			<u>266,725</u>	<u>3,133,919</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
Direct Program				
Federal Equitable Sharing Program - Dept of Justice	16.922	N/A	-	707,087
Indirect Programs				
Passed Through Broward County Sheriff's Office Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-1021	-	21,851
Passed Through Florida Department of Law Enforcement Edward Byrne Memorial Justice Assistance Grant	16.751	2018-JAGE-BROW-4-E9-005	-	6,327
Passed Through the Florida Office of the Attorney General Victims of Crime Act Grant	16.575	VOCA-2017-City of Hollywood Police-00218	-	69,044
<b>Total U.S. Department of Justice</b>			<u>-</u>	<u>804,309</u>
<b>U.S. DEPARTMENT OF TREASURY</b>				
Direct Program				
Federal Equitable Sharing Program - Dept of Treasury	21.016	N/A	-	181,144
<b>Total U.S. Department of Treasury</b>			<u>-</u>	<u>181,144</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Direct Program				
SAFER Grant	97.083	EMW-2015-FH-00128	-	661,602
Indirect Program				
Passed Through City of Miami Urban Area Security Initiative Grant	97.067	17-DS-V9-11-23-02-346	-	119,886
<b>Total U.S. Department of Homeland Security</b>			<u>-</u>	<u>781,488</u>

See Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

CITY OF HOLLYWOOD, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Federal/State Agency, Pass-Through Entity, Federal Program/State Project	CFDA CFSA No.	Contract/ Grant Number	Provided to Subrecipients	Expenditures
<b>U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY</b>				
Indirect Program				
Passed Through Florida Department of Environmental Protection				
Agency:				
Capitalization Grants for State Revolving Funds	66.458	DW060470	-	1,216,860
<b>Total U.S. Department of Environmental Protection Agency</b>			-	1,216,860
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 266,725</u>	<u>\$ 6,117,720</u>
<b>FLORIDA DEPARTMENT OF TRANSPORTATION</b>				
Direct Program				
Public Service Transportation - Trolley Grant	55.012	ARD59 / 434973-1-84-01	-	75,000
<b>Total Florida Department of Transportation</b>			<u>\$ -</u>	<u>\$ 75,000</u>
<b>FLORIDA DEPARTMENT OF COMMUNITY AFFAIRS - HOUSING FINANCE CORPORATION</b>				
Direct Programs				
State Housing Initiatives Partnership Program Grant - FY2014-2015	40.901	225001	6,567	6,567
State Housing Initiatives Partnership Program Grant - FY2015-2016	40.901	225001	-	607,172
State Housing Initiatives Partnership Program Grant - FY2016-2017	40.901	225001	-	318,751
State Housing Initiatives Partnership Program Grant - FY2017-2018	40.901	225001	-	33,784
<b>Total Florida Department of Community Affairs - Housing Finance Corporation</b>			<u>6,567</u>	<u>966,274</u>
<b>FLORIDA DEPARTMENT OF ELDER AFFAIRS</b>				
Direct Program				
Fred Lippman Multipurpose Center Elderly Grant	65.009	JL117-29-2018	-	228,000
<b>Total Florida Department of Elder Affairs</b>			-	228,000
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<u>\$ 6,567</u>	<u>\$ 1,269,274</u>

See Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

# CITY OF HOLLYWOOD, FLORIDA

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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### NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal and state grant activity of the City of Hollywood, Florida (the City) under programs of the federal government and the State of Florida for the fiscal year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Chapter 10.550, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position/fund balance or cash flows of the City.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting for grants which are accounted for in the governmental fund types and on the accrual basis of accounting for grants which are accounted for in the proprietary fund types. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Florida Single Audit Act, wherein certain types of expenditures are not allowable or are limited as to reimbursement, except for the Equitable Sharing programs for the Departments of Justice and Treasury which follow, *Guide to Equitable Sharing for Foreign Countries and Federal, State and Local Law Enforcement Agencies*.

### NOTE 3 – INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### NOTE 4 – OUTSTANDING LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

On July 19, 2002, the City received a \$5,585,000 loan commitment from the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program. As of September 30, 2018, the outstanding loan balance is \$500,000.

**CITY OF HOLLYWOOD, FLORIDA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

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**I. PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

***MATERIAL WEAKNESS***

2016-001 – Bank Reconciliations finding was not repeated in the current year.

***SIGNIFICANT DEFICIENCY***

2017-001 – Internal Controls over the preparation of the Schedule of Federal Awards and State Financial Assistance was not repeated in the current year.

**II. PRIOR YEAR FEDERAL AWARDS AND STATE PROJECTS FINDINGS AND QUESTIONED COSTS**

2017-002 – Subrecipient Monitoring was not repeated.

**CITY OF HOLLYWOOD, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

Type of auditors’ report issued on whether the financial Statements audited were prepared in accordance with GAAP: *Unmodified Opinion*

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No  
 Significant deficiency(ies) identified?  Yes  None reported  
 Non-compliance material to financial statements noted?  Yes  No

**Federal Awards and State Project**

Internal control over major programs:

Material weakness(es) identified?  Yes  No  
 Significant deficiency(ies) identified?  Yes  None reported

Type of auditors’ report issued on compliance for major programs:

*Unmodified Opinion*  
 Any audit findings disclosed that are required to be reported in accordance with CFR 200.516(a) or Chapter 10.557, *Rules of the Auditor General*?  Yes  No

Identification of major programs/project:

<u>CFDA No.</u>	<u>Federal Program or Cluster</u>
14.248	Community Development Block Grants Section 108 Loan Guarantees
16.922	Equitable Sharing Program
66.458	Capitalization Grants for State Revolving Funds
<u>CSFA No.</u>	<u>State Project</u>
40.901	State Housing Initiatives Partnership Program Grant

Dollar threshold used to distinguish between Type A and Type B programs – Federal \$750,000

Dollar threshold used to distinguish between Type A and Type B projects – State \$300,000

Auditee qualified as low-risk auditee pursuant to the Uniform Guidance?  Yes  No

# CITY OF HOLLYWOOD, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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### SECTION II – FINANCIAL STATEMENT FINDINGS

#### *SIGNIFICANT DEFICIENCY*

##### **SD 2018-001**

#### *Criteria*

GASB Statement No. 62, paragraphs 58-89, addresses reporting accounting changes, prior period adjustments, and corrections of errors. Errors in financial statements result from mathematical mistakes or oversight or misuse of facts that existed at the time the financial statements were prepared.

#### *Condition*

The City participates in Federal and State programs which help produce and preserve affordable homeownership and multifamily housing. The programs are designed to create affordable housing for low-income and moderate-income households through assistance to purchase a home, money to repair or replace a home, and many other types of housing assistance. As part of the program, the City provides deferred loans (recorded mortgages and promissory notes) to qualifying participants which are due 30 years from signing or due on demand as a result of loan default (upon sale or transfer). These promissory notes are collateralized by the property for which the loan has been issued. Under the modified accrual basis of accounting, as required for governmental funds, revenues and other increases in financial resources should be recognized when they become susceptible to accrual. That is defined as “both measurable and available” to pay liabilities of the current period. Measurable means that the amount is known or can be reasonably estimated. Available means that the amount is “collectible within the current period or soon enough thereafter” to be used to pay current period liabilities. Currently, the City does not defer the recognition of revenue associated with the issuance of promissory notes in its governmental funds (Special Revenue Funds – Special Programs and Local Housing Assistance (S.H.I.P)), and therefore the auditor suggested a correction of an error be presented.

#### *Cause*

Improper application of generally accepted accounting principles in the United States (U.S. GAAP).

#### *Effect*

The auditor proposed prior period adjustments be recorded in the fiscal year 2018 City financials statements as a result to correct the accounting errors that were made in prior years.

**CITY OF HOLLYWOOD, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

***SIGNIFICANT DEFICIENCY (CONTINUED)***

**SD 2018-001 (continued)**

***Recommendation***

The auditor recommends the City record the correction of errors as prior period adjustments to the opening balance of fund balance. Also, as part of the financial statement footnotes, the City should disclose the nature of the error and the impact on the financial statements.

***Views of Responsible Officials and Planned Corrective Actions***

See accompanying corrective action plan.

**SECTION III – FEDERAL AWARDS AND STATE PROJECTS FINDINGS AND QUESTIONED COSTS**

None.

Finding SD 2018-001

Responsible Party: Finance Director

Response: The City concurs with the auditor's findings. The correction of these errors were recorded as prior period adjustments to the opening balance of the Fund Balance. Also as part of the financial statement footnotes, the City has disclosed the nature of the error and the impact on the financial statements.

Observation MLC 2018-001

Responsible Parties: Finance Director, City Management

Response: Management agrees with auditor's recommendations. The City will consider reviewing the OPEB plan provisions for potential amendments and study the options to create an OPEB trust fund in the future.

Observation MLC 2018-002

Responsible Parties: Procurement Services Director, Finance Director

Response: Management concurs with auditor's recommendations. The City has familiarized itself with the Uniform Guidance and taken the necessary steps to ensure full compliance with the guidance. The City's procurement policies will be updated accordingly.

Observation MLC 2018-003

Responsible Parties: Public Utilities Director, Finance Director

Response: Management concurs with auditor's recommendations. Public Utilities was required to fix a leak in the 60 inch Ocean Outfall caused by an outside party contractor (not a Public Utilities contractor) within the West Lake Village Community. The contractor refused to make the repair. Public Utilities contacted the City's Risk Management Department for the Self Insurance Fund account to be charged for the repairs. The City Attorney's office would work to get the City reimbursed from contractor for the cost of the repair. Public Utilities believed reimbursement was assured by the Self Insurance Fund if the contractor did not pay. In April 2019 it was determined that this was not eligible for reimbursement from the Self Insurance Fund. The City made the recommended adjustments to expense the cost. When the funds are ultimately

recovered by the City Attorney, the funds will be deposited in the Public Utilities Account. The City will insure that in the future these unusual or complex transactions are researched and recorded correctly.

Observation MLC 2017-001

Responsible Party: Finance Director

Response: The City addressed the issue during fiscal year 2018 with the final resolution going to the City Commission for approval in December 2018. Since the amended lease agreement was finalized in early fiscal year 2019, the observation has been addressed and is no longer an issue moving forward.

**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE  
AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Honorable Mayor, City Commission and City Manager  
**City of Hollywood, Florida**

***Report on the Financial Statements***

We have audited the financial statements of the City of Hollywood, Florida (the City), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated June 6, 2019. We did not audit the financial statements of the City of Hollywood Firefighters' Pension System and City of Hollywood Police Officers' Retirement System (collectively, the Plans), which represent 55%, 60% and 42%, respectively, of the assets, net position/fund balance and revenues/additions of the aggregate remaining fund information.

***Auditors' Responsibility***

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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

***Other Reporting Requirements***

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for Each Major Federal Program and State Project; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards and State Financial Assistance Required by the Uniform Guidance and Chapter 10.550, Rules of the Auditor General; Schedule of Findings and Questioned Costs; Summary Schedule of Prior Audit Findings; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedules, which are dated June 6, 2019, should be considered in conjunction with this management letter.

### ***Prior Audit Findings***

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. The status of recommendations made in the preceding annual financial audit report have been addressed in the summary schedule of prior audit findings and in Appendix A to this report.

### ***Official Title and Legal Authority***

Section 10.554(1)(i)4., 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. The information is disclosed in Note I to the financial statements. The City included the following blended component unit: the Hollywood Community Redevelopment Agency, comprised of the Downtown District and the Beach District.

### ***Financial Condition and Management***

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify 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.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City. 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 review of financial information provided by same. Our assessment was performed as of the fiscal year end.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did have recommendations to improve financial management which are described in the current year observations section in Appendix A. In addition, we reported audit findings in the schedule of findings and questioned costs with management's responses provided in the accompanying corrective action plan.

### ***Special District Component Units***

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b) Florida Statutes.

***Additional Matters***

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

***Purpose of this Letter***

Our management 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 other granting agencies, the Mayor and the City Commission, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*Marcum LLP*

Fort Lauderdale, FL  
June 6, 2019

# CITY OF HOLLYWOOD, FLORIDA

## APPENDIX A – CURRENT YEAR AND PRIOR YEARS RECOMMENDATIONS TO IMPROVE FINANCIAL MANAGEMENT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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No.	Observations	Observation Is Still Relevant	Observation Addressed or No Longer Relevant
<b><u>Current Year</u></b>			
MLC 2018-001	Other Post-Employment Benefits		
MLC 2018-002	Implementation of Required Uniform Guidance (UG) Procurement Guidelines		
MLC 2018-003	Improper Recognition of Transaction – Water and Utility Fund		
<b><u>Prior Year</u></b>			
MLC 2017-001	Opportunity to Reassess Active Agreements in Order to Eliminate Unnecessary Interest Expense	Still Relevant	

# CITY OF HOLLYWOOD, FLORIDA

## APPENDIX A – CURRENT YEAR AND PRIOR YEARS RECOMMENDATIONS TO IMPROVE FINANCIAL MANAGEMENT (CONTINUED)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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### MLC 2018-001 – OTHER POST-EMPLOYMENT BENEFITS

#### *Observation*

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits in their Financial Statements*, therefore, a total OPEB liability which had never been recorded and presented in their financial statements in the past was now presented. What was recorded and presented previously was solely an OPEB funding obligation, based on GASB Statement No. 45. This implementation resulted in an increase of approximately a \$377.2 million of OPEB liability at the beginning of the fiscal year and an increase of the unrestricted deficit in the government-wide financial statements (approximately \$752.2 million at year end). The result leaves the City with an overall deficit in total net position of approximately \$385.2 million; net position is the difference of your assets plus deferred outflows minus your liabilities plus deferred inflows. At this point, the City's liabilities exceeds its assets.

#### *Effect*

This could impact the City's bond ratings as well as other financial indicators, as the OPEB liability, as well as total liabilities continue to increase.

#### *Recommendation*

Marcum recommends that the City consider reviewing the OPEB plan provisions for potential amendments or create an OPEB trust fund so assets can be set aside, similar to a pension trust fund, for the payment of future benefits. The creating of an OPEB trust fund will provide legal protection of its assets from outside City creditors and may reassure the credit rating agencies that the City is working to manage rising liabilities.

#### *Management's Response*

See accompanying corrective action plan.

# CITY OF HOLLYWOOD, FLORIDA

## APPENDIX A – CURRENT YEAR AND PRIOR YEARS RECOMMENDATIONS TO IMPROVE FINANCIAL MANAGEMENT (CONTINUED)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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### MLC 2018-002 – IMPLEMENTATION OF REQUIRED UNIFORM GUIDANCE (UG) PROCUREMENT GUIDELINES

#### *Observation*

The federal Office of Management and Budget (OMB) provides guidance regarding the procurement procedures for local agencies that are awarded federal funds. In December 2014, OMB issued the “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards”, commonly referred to as “Uniform Guidance” (2CFR § 200), to streamline and consolidate government requirements for receiving and using federal grant awards. The “Uniform Guidance” aims to reduce the administrative burden on award recipients, as well as guard against the risk of waste and misuse of federal funds. The grace period allowed the City to implement the procurement standards prescribed in the “Uniform Guidance” on and by October 1, 2018 and it was noted that as of the date of our auditors report, supporting documentation for proof of compliance was not provided to the auditor.

#### *Effect*

The City may be non-compliant with Federal guidelines during fiscal year 2019.

#### *Recommendation*

We recommend the City becomes familiar with the requirements of the Uniform Guidance and take the necessary steps to ensure full compliance with the guidance. City management should review the applicable provisions of the Uniform Guidance and update the City’s procurement policies appropriately in order to continue to receive federal awards and to comply with the OMB.

#### *Management’s Response*

See accompanying corrective action plan.

# CITY OF HOLLYWOOD, FLORIDA

## APPENDIX A – CURRENT YEAR AND PRIOR YEARS RECOMMENDATIONS TO IMPROVE FINANCIAL MANAGEMENT (CONTINUED)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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### MLC 2018-003 – IMPROPER RECOGNITION OF TRANSACTION – WATER AND UTILITY FUND

#### *Observation*

As a result of our audit procedures performed over the Water and Utility Fund (Fund 42) we noted one (1) journal entry in the amount of approximately \$1.2 Million recorded by the City which did not conform with generally accepted accounting principles in the United States (U.S. GAAP). The City recorded a receivable for a potential future legal claim against a third-party. As per US. GAAP, contingencies that may result in future receipts or gains should not be recognized until the contingency is resolved.

#### *Effect*

An audit adjustment was proposed by the auditor and recorded by the City in their financial statements to properly reflect the transaction and to ensure the City financial records conformed with U.S. GAAP. The adjustment corrected the overstated accounts receivable balance in the fund by approximately \$1.2 million and the understatement of fund expenses.

#### *Recommendation*

We recommend all transactions be recorded in accordance with U.S. GAAP through research of accounting literature when encountering complex or unusual transactions.

#### *Management's Response*

See accompanying corrective action plan.

# CITY OF HOLLYWOOD, FLORIDA

## APPENDIX A – CURRENT YEAR AND PRIOR YEARS RECOMMENDATIONS TO IMPROVE FINANCIAL MANAGEMENT (CONTINUED)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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### **MLC 2017-001 – OPPORTUNITY TO REASSESS ACTIVE AGREEMENTS IN ORDER TO ELIMINATE UNNECESSARY INTEREST EXPENSE**

#### ***Observation***

During the testing of the Master Equipment Lease/Purchase Obligation, Marcum confirmed the balance due by the City as of September 30, 2018. The response received from the financial institution showed a total outstanding amount of approximately \$16.2 million which produced a \$2.3 million difference as compared to the amount recorded by the City. Upon inquiry with management, due to the Acceptance Certificate not being finalized, the financial institution is considering the full debt amount outstanding and has not calculated the final payment schedule which would reflect an updated amortization schedule (using the final balance of actual draws of approximately \$14.2 million, and capitalized interest of approximately \$258 thousand as stipulated in the agreement).

#### ***Effect***

Without an executed Acceptance Certificate provided to the financial institution, the City has continued to make payments based on the original obligation amount of approximately \$16.2 million, rather than the actual draw down amounts of approximately \$14.3 million and capitalized interest of an approximately \$258 thousand. By doing so, the City has over paid interest as they are being charged interest on the total Purchase Obligation agreement as opposed to actual drawdowns to date.

#### ***Recommendation***

Prudent practice would dictate that all deliverables within debt agreements should be finalized to its entirety. The City of Hollywood should provide the Financial Institution an executed Acceptance Certificate in order to finalize the loan amount/agreement to avoid overpayment of interest expense. Additionally, a review should be performed annually by management regarding all active debt agreement to ensure non-reoccurrence.

#### ***Management's Response***

See accompanying corrective action plan.

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE PURSUANT TO  
SECTION 218.415 FLORIDA STATUTES**

To the Honorable Mayor, City Commission and City Manager  
**City of Hollywood, Florida**

We have examined the City of Hollywood's (the City) compliance with Section 218.415 Florida Statutes, Local Government Investment Policies for the fiscal year ended September 30, 2018. Management of the City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with Section 218.415 Florida Statutes for the fiscal year ended September 30, 2018.

This report is intended to describe our testing of compliance with Section 218.415, Florida Statutes, and it is not suitable for any other purpose.

*Marcum LLP*

Fort Lauderdale, FL  
June 6, 2019