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INDEPENDENT AUDITOR’S MANAGEMENT LETTER

Honorable Mayor and Members of City Council
City of West Melbourne, Florida

Report on the Financial Statements

We have audited the financial statements of the City of West Melbourne, Florida (the “City”) as of and for the fiscal year ended September 30, 2024, and have issued our report thereon dated March 13, 2025.

Auditor’s 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 for Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

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 the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant’s 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 Florida Auditor General. Disclosures in those reports and schedules, which are dated March 13, 2025, 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 each finding and recommendation made in the preceding annual financial audit report noted below is described in the Schedule of Findings and Questioned Costs:

<u>Prior Year Management Letter Comments:</u>	<u>Status</u>
MC 2024-004* Unexpended Balance – Building Permits	Repeated and Revised

*The finding listed above originated in the fiscal year 2019 audit.

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 legal authority of the City of West Melbourne, Florida and its component unit is disclosed in the footnotes. The City of West Melbourne, Florida includes the following component unit:

<u>Component Unit:</u>	<u>Established by:</u>
City of West Melbourne – Brevard County Joint Community Redevelopment Agency	City Ordinance 2012- 19 dated July 17, 2012

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and communicate the results of our determination as to whether or not the City of West Melbourne, Florida 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 of West Melbourne, Florida 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 of West Melbourne, Florida. It is management's responsibility to monitor the City of West Melbourne, Florida'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.

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 have the following recommendations:

2024-004 Unexpended Balance – Building Permits (Repeated in FY2024)

Criteria: Section 553.80(7)(a) of Florida Statutes has been updated to limit the amount of unexpended building permit funds carried forward to future fiscal years to no more than the City's average operating budget for enforcing the Florida Building Code for the previous four (4) fiscal years. A local government must use any funds in excess of this limitation to rebate or reduce fees.

Condition: While the City has begun to spend down building permit funds and has plans to further reduce this balance, the City's unexpended building permit funds at September 30, 2024 exceeded the City's average operating budget for enforcing the Florida Building Code for the previous four (4) fiscal years by \$1,063,932.

Cause: Prior to July 1, 2019, there was no provision in the Florida Statutes limiting the amount of carryforward of unexpended building permit funds. In prior fiscal years, the annual revenue derived from building permit fees exceeded anticipated amounts.

Effect: The City has excess unexpended balances at September 30, 2024 resulting in noncompliance with Florida Statutes.

Recommendation: The City should identify how it intends to reduce the amount of unexpended building code balances in order to comply with Section 553.80(7)(a) of Florida Statutes. Such action may require the City to modify its fiscal year 2024-25 budget.

Management Response: The City recognizes the requirement to reduce the excess fund balance restricted for Building Code Enforcement. In fiscal years 2020 and 2021, the City Council approved resolutions that waived and reduced certain building plan check and inspection fees. While these reductions did indeed reduce the excess, it has not reduced them to the level required by Statute. During fiscal year 2022, the City reduced the fund balance by \$499,099 due to operating expenses. In fiscal year 2023, the City contracted with an architectural firm to create a Building Design Criteria Package and in fiscal year 2024, the City entered into a Design/Build contract with W&J Construction to develop a new building to house the Building Department. In April 2025, City staff will request City Council approval on the construction price and agreement.

2024-005 Fund Balance – Building Code Enforcement (Control Deficiency)

Criteria: Per Generally Accepted Accounting Principles (GAAP), financial statements should accurately reflect revenues and expenditures to ensure a true and fair representation of an entity's financial position. Additionally, proper reconciliation and review procedures should be in place to prevent errors in financial calculations.

Condition: The Building Code Enforcement restricted fund balance was understated by \$61,118 due to the double counting of certain expenses in the year-end restricted fund balance calculation. Capital outlay expenditures were inadvertently included twice when determining the restricted final fund balance.

Cause: The understatement result from a miscalculation in the year-end restricted fund balance determination, where capital outlay expenditures were counted twice, leading to an artificially lower ending restricted fund balance. This may have also been due to errors in manual calculations, lack of proper review, or incorrect adjustments during the year-end closing process.

Effect: The restricted fund balance would be inadvertently understated, leading to a misrepresentation of the financial position of the Building Code Enforcement fund, which could also impact budgeting, financial planning, and compliance with regulatory reporting requirements. This misstatement highlights a weakness in financial review and reconciliation controls, potentially increasing the risk of similar errors in the future.

Recommendation: City management should establish a secondary review process to verify year-end fund balance calculations are accurate before finalizing fund balance reports and require regular reconciliation of expenses to prevent duplicate reporting and ensure accuracy in financial reporting.

Management Response: The City recognizes the need to review year-end journal entries and underlying support to ensure accuracy. The City will provide a more thorough review in the future.

2024-006 Loss on Disposal of Fixed Assets (Improvement Point)

Criteria: According to Governmental Accounting Standards Board (GASB) standards, specifically GASB Statement No. 34, when a government entity disposes of capital assets without receiving proceeds, the asset's net book value should be recognized as a loss on disposal rather than as revenue. Recording the disposal as revenue misrepresents the financial statements.

Condition: A \$351,698 adjustment was erroneously recorded as asset proceeds in revenue instead of being classified as a loss on disposal of fixed assets. The equipment was disposed due to obsolescence, and no money was exchanged in the transaction.

Cause: The misclassification appears to have been caused by an error in the journal entry to record the asset disposal that was not identified during the review of the journal entry.

Effect: The impact could have led to an overstatement of revenue by \$351,698, which could mislead financial statement users and stakeholders. It could also lead to misclassification of financial statement line items, affecting financial statement accuracy and transparency as well as potential noncompliance with GASB standards.

Recommendation: The City should apply proper accounting treatment for fixed asset disposals under GASB guidelines to ensure proper classification of disposal transactions.

Management Response: The City recognizes the need to apply proper accounting treatment for fixed asset disposals and will provide a more thorough review of the accounts used in the future.

Property Assessed Clean Energy (PACE) Programs (Unaudited)

As required by Section 10.554(1)(i)6.a., Rules of the Auditor General, a statement as to whether a PACE program authorized pursuant to Section 163.081 or Section 163.082, Florida Statutes, did/did not operate within the City of West Melbourne, Florida's geographical boundaries during the fiscal year under audit. A PACE program did not operate within the City of West Melbourne, Florida's geographical boundaries during the fiscal year under audit.

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 warrants the attention of those charged with governance. In connection with our audit, we did not note 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, State and other granting agencies, the members of the City Council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
March 13, 2025