

**NORTHWEST FLORIDA
WATER MANAGEMENT DISTRICT**

Operational Audit



BOARD MEMBERS AND EXECUTIVE DIRECTOR

Northwest Florida Water Management District Board Members and Executive Director who served from October 2010 through September 2011 are listed below:

George Roberts, Chair
Phillip McMillan, Vice Chair to 3-1-11 (1)
Joyce Estes, Secretary/Treasurer from 9-22-11 (2)
Steve Ghazvini, Secretary/Treasurer to 3-1-11 (2)(3)
Peter Antonacci
Stephanie H. Bloyd
Jerry Pate
Ralph Rish
Tim Norris, to 7-25-11
Gus Andrews, from 7-26-11
Nick Patronis, from 7-26-11

Douglas E. Barr, Executive Director

Notes: (1) Board Member position and Vice Chair position remained vacant from March 2, 2011, through September 30, 2011.
(2) Secretary/Treasurer position remained vacant from March 2, 2011, through September 21, 2011.
(3) Board member position remained vacant from March 2, 2011, through July 25, 2011.

The audit team leader was Michael E. Nichols, and the audit was supervised by Michael J. Gomez, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

NORTHWEST FLORIDA WATER MANAGEMENT DISTRICT

SUMMARY

Our operational audit of the Northwest Florida Water Management District (District) disclosed the following:

FRAUD POLICIES AND ORGANIZATIONAL ISSUES

Finding No. 1: The District had not implemented, nor had the governing board of the District (Board) approved, policies for the mitigation, detection, and reporting of fraud.

Finding No. 2: The District, in contracting with an accounting firm to perform inspector general services, did not, of record, ensure that the inspector general services were provided consistent with the standards and duties required by law. Additionally, the District had not used a competitive selection process to acquire inspector general services since November 2005.

Finding No. 3: The Board had not formally established duties and responsibilities provided for in law for the ombudsman position.

Finding No. 4: Board treasurer/secretary position vacancy was not timely filled.

CONTRACTS

Finding No. 5: The Board had not established an audit committee, nor had the District implemented auditor selection criteria when selecting its financial auditor, contrary to law. Also, the contract for audit services did not include certain statutorily required provisions.

Finding No. 6: Contract balances were accounted for in paper-based files that were incomplete and contained mathematical errors.

Finding No. 7: Contracts for professional engineering services did not always contain a prohibition against contingent fees, contrary to law.

TANGIBLE PERSONAL PROPERTY

Finding No. 8: Annual property inventories had been performed by custodian delegates, contrary to rules of the Department of Financial Services.

Finding No. 9: The District had not implemented, nor had the Board approved, policies for vehicle usage and maintenance.

BACKGROUND

Established in 1972, the Northwest Florida Water Management District protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the 16 counties it serves. The District is one of five water management districts created under the Water Resources Act of 1972 and includes Escambia, Santa Rosa, Okaloosa, Walton, Holmes, Washington, Bay, Jackson, Calhoun, Gulf, Gadsden, Liberty, Franklin, Leon, Wakulla, and Jefferson counties. Governance lies with a nine-member board consisting of one representative of each of the District's five hydrologic basins and four members that serve at-large. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate.

FINDINGS AND RECOMMENDATIONS

Fraud Policies and Organizational Issues

Finding No. 1: Fraud Policies

Policies for communicating and reporting known or suspected fraud are essential to aid in the detection and prevention of fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and avoiding damage to reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities.

In response to our inquiries, District management indicated that the District considered fraud policies to be a valuable tool in communicating to employees the definition of fraud and establishing procedures for incident reporting; however, a formal, written policy had not been established by the District, nor approved by the governing board of the District (Board).

Recommendation: **The District, with Board approval, should develop and implement fraud policies to aid in the detection and prevention of fraud.**

Finding No. 2: Inspector General

Section 373.079(4)(b), Florida Statutes, requires the Board to employ an inspector general, who shall report directly to the Board. An inspector general must have the same qualifications and perform the applicable duties of State agency inspectors general as provided in Section 20.055, Florida Statutes.

Our review disclosed that the District contracted with an accounting firm to perform the duties of an inspector general rather than hire an employee. However, District records did not evidence that a formal analysis was prepared to support this decision. Such an analysis should include a determination of the nature and extent of inspector general services to be provided and a comparison of the cost to contract for such services with the cost to hire a qualified employee.

While the District used a competitive selection process to acquire inspector general services in November 2005 for the 2005-06 fiscal year, it did not use a competitive selection process to acquire these services subsequently. Since the 2005-06 fiscal year, the District executed one-year agreements with the same firm. Absent the use of a competitive selection process, the District's ability to demonstrate the fair, equitable, and economical procurement of professional services is limited.

For the 2010-11 fiscal year, the terms of the agreement with the accounting firm specified that the fees for services would be based on a blended hourly rate of \$86.50 and would not exceed 350 hours, or \$30,275. A comparison of the duties, responsibilities, and qualifications specified in Section 20.055, Florida Statutes, for inspectors general, with those of the accounting firm contracted by the District, disclosed the following:

- The law requires that audits be conducted in accordance with current International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors, Inc., or where appropriate, in accordance with generally accepted government auditing standards. However, audit reports issued by the District's contracted accounting firm for the 2007-08 through 2009-10 fiscal years stated that the procedures performed did not constitute an audit in accordance with auditing standards generally accepted in the United States of America, but rather the procedures performed were done in conformity with Statements on Standards for Consulting Services of the American Institute of Certified Public Accountants.
- The law requires that an inspector general comply with the General Principles and Standards for Offices of Inspector General as published and revised by the Association of Inspectors General. However, the District's agreements with the contracted accounting firm did not include any provision for such principles and standards to be followed.
- The law specifies that an inspector general shall be involved in the development and review of performance measures, standards, and procedures for the evaluation of entity programs. However, our review of the District's contracted accounting firm's work plans and final audit reports for the 2007-08 through 2009-10 fiscal years disclosed no reference to such performance measures, standards, or procedures.

The inspector general should provide a central point for coordination of, and responsibility for, activities that promote accountability, integrity, and efficiency in government. While the law does not specify the extent to which inspector general services should be used, the District's current practice of contracting with an accounting firm for 350 hours of inspector general services per year appears to provide for minimal inspector general services.

Recommendation: The District should ensure that the work plan for inspector general services includes audit areas for performance measures, standards, and procedures; that the services comply with specified principles and standards for inspectors general; and that the audits are conducted in accordance with appropriate auditing standards, as specified in Section 20.055, Florida Statutes. To promote accountability, integrity, and efficiency in District operations, the District should consider increasing inspector general audit efforts. In doing so, District personnel should prepare a formal analysis to determine whether to hire an employee to serve as inspector general or continue to use the services of an accounting firm. If it is determined that the use of an accounting firm is more cost-beneficial, the District should periodically employ a competitive selection process to select the firm.

Finding No. 3: Ombudsman

Section 373.079(4)(a), Florida Statutes, provides that the Board shall employ an ombudsman. Although not specifically defined in law, an ombudsman generally refers to an individual who investigates, reports on, and helps settle complaints.¹ District personnel stated that ombudsman responsibilities were handled by the District's Executive Director, and not by a separately employed position.

Our review of the Executive Director's position description disclosed that, although there was a general statement that the position serves as liaison between the governing board, staff, and the general public, there were no specific duties and responsibilities attributable to the role of ombudsman. Additionally, we did not observe ombudsman information communicated on the District's Web site, or elsewhere, to inform employees and the general public as to the role of the ombudsman or how it functions. Upon inquiry, Department personnel stated that ombudsman matters are routinely handled by telephone, and no logs or files were maintained. Also, we noted that since the roles of Executive Director and ombudsman were combined, the Executive Director would be in a position to review issues under his management oversight, thus limiting his objectivity in the ombudsman role.

¹ Merriam-Webster Dictionary

Recommendation: The Board should establish duties and responsibilities of the ombudsman position provided for in law, and clearly communicate the ombudsman's role to District employees and the general public. Consideration should be given to assigning the ombudsman role to a position that is independent of management.

Finding No. 4: Secretary/Treasurer Position Vacancy

Section 373.553(1), Florida Statutes, requires the Board to designate a treasurer who shall be custodian of all funds belonging to the Board and to the District. Also, Section 373.079(2), Florida Statutes, provides that the Board shall choose some suitable person, who may be required to execute a bond for the faithful performance of his or her duties, as secretary.

Our review of Board records disclosed that the offices of treasurer and secretary were held by one member on the Board. During the audit period, this member's term expired on March 1, 2011, and a replacement was not appointed until September 22, 2011, over six months later. District records did not evidence the reasons for the delay in appointing a secretary and treasurer. The timely replacement of vacating Board officers helps ensure appropriate assignment of the duties and responsibilities required by law.

Recommendation: The Board should timely replace vacating officers to provide for the assignment of duties and responsibilities as required by law.

Contracts

Finding No. 5: Auditor Selection and Contract Requirements

Pursuant to Section 218.39, Florida Statutes, the District must provide for an annual financial audit. Such financial audits performed by licensed certified public accountants give assurance to the reliability and completeness of the District's financial statements; provide a means for evaluating the effectiveness of the District's internal control over financial reporting; and include a determination of the extent to which the District complied with applicable laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the District's financial statement amounts. Consequently, it is important for entities to use an adequate auditor procurement process to ensure a quality audit.

The District must select the auditor using the procedures prescribed in Section 218.391, Florida Statutes, prior to entering into a written agreement for audit services. Sections 218.391(2) and (3), Florida Statutes, require the Board to establish an audit committee to assist in the selection of an auditor and specify the responsibilities of the audit committee, which include publicly announcing the need for audit services and using requests for proposals. Additionally, Section 218.391(7), Florida Statutes, prescribes the required elements of a contract for audit services. Noncompliance with the statutory auditor selection procedures may increase the risk of a substandard audit.

The District's current financial audit contract, dated October 14, 2008, is for audit services for a five-year period through the financial audit for the 2012-13 fiscal year. District records did not evidence that an audit committee had been established by the Board for selecting the auditor, nor that requests for proposals had been used to competitively procure the audit services. The current contract contains the same terms as the previous contract, dated April 15, 2005, which did not include a contract renewal provision for extending the contract beyond the financial audit for the 2007-08 fiscal year. District management stated that while the current contract does not specifically state it was a

renewal, it was the intent of the District to renew the contract with the previous financial auditor. However, Section 218.391, Florida Statutes, requires use of the competitive procedures described therein at the expiration of existing contracts.

We also noted the following regarding the current contract:

- Contrary to Section 218.391(7)(b), Florida Statutes, there was no provision requiring invoices for fees or other compensation to be submitted in sufficient detail to demonstrate compliance with terms of the contract. Although the contract included a statement that invoices for the fees will be rendered each month as work progresses, the contract did not specify the level of detail of the invoices. Our review of two invoices for the 2010-11 fiscal year financial audit, representing 50 percent of the audit fee, disclosed that the level of detail was insufficient to determine the work performed or whether the fees charged per the invoice were consistent with the contract.
- Contrary to Section 218.391(7)(c), Florida Statutes, there was no provision specifying the contract period, including renewals, and conditions under which the contract may be renewed. The contract included a statement that the engagement may be renewed for additional years at the option of both parties; however, it did not specify a finite period, including renewals, for the contract.

Recommendation: The Board should ensure compliance with the auditor selection and contract requirements prescribed in Section 218.391, Florida Statutes.

Finding No. 6: Contract Monitoring System

An essential element of an effective contract monitoring system is the capability to obtain reliable contract balances at any given time. Reliable contract balances are important in making informed budgetary and spending decisions. Contract monitoring systems that are integrated with the accounting records help ensure that contract balances are current and accurately reflect all contract amendments and payments related to contracts.

During the period October 2010 to September 2011, the District maintained paper-based files for 142 contracts, totaling approximately \$44 million. Each file contained copies of invoices and checks to document contract transactions, as well as a contract summary form. The contract summary form included the contract amount, individual payment amounts, paid-to-date totals, and the contract balance. Periodically, information from the contract summary forms was summarized on a contract spreadsheet for monitoring and reporting purposes. Contract spreadsheets were utilized to monitor contract balances since the accounting records could not summarize contract expenditures by individual contract.

Our review of contract transactions, balances on the individual contract summary forms, and comparison to the contract balances reported on the contract spreadsheets for 18 contracts totaling \$4,569,114 disclosed the following:

- For two contracts, totaling \$50,804, the contract balances from the contract summary forms were missing from the contract spreadsheet.
- For two contracts, the contract balances on the contract summary forms were overstated in total by \$117,397. Two paid invoices, one for \$113,827 and the other for \$3,570, were not included in the paid-to-date totals for the respective contracts.
- For two contracts, the contract balances on the contract summary forms were understated in total by \$624. For one contract, an invoice, totaling \$324, was included in the paid-to-date total in error, and, for another contract, an invoice amount was incorrectly added, resulting in the paid-to-date total being overstated by \$300.

Maintaining paper-based contract files and handwritten contract summary forms is more labor intensive and more prone to mathematical errors and omissions than electronic systems that are integrated with the accounting records.

Recommendation: The District should consider developing and implementing a computerized contract monitoring system that is integrated with its accounting records to better account for its contract balances.

Finding No. 7: Prohibition Against Contingent Fees

Section 287.055(6)(a), Florida Statutes, requires each contract entered into by the District for professional services, such as for a professional engineer, to contain a prohibition against contingent fees stating that the professional engineer warrants that he or she has not employed or retained any company or person, other than a bona fide employee working solely for the professional engineer, to solicit or secure this agreement and that he or she has not paid or agreed to pay any person, company, corporation, individual, or firm, other than a bona fide employee working solely for the professional engineer any fee, commission, percentage, gift, or other consideration contingent upon or resulting from the award or making of this agreement.

During the period October 2010 through September 2011, the District contracted with ten engineers for services totaling \$12,127,750. Our review of five of the contracts, totaling \$2,505,780, disclosed that four contracts, totaling \$1,515,780, did not include the statutory required language pertaining to the prohibition of contingent fees. Upon inquiry, District management stated that the missing language from the contracts was unintentional. It is important to include the required clause in professional service contracts to ensure the District is protected from legal claims of outside parties not directly associated with the contracts.

Recommendation: The District should include the prohibition against contingent fees clause in its contracts for professional services, as required by law.

Tangible Personal Property

Finding No. 8: Annual Property Inventory

Section 274.02(2), Florida Statutes, provides that the State Chief Financial Officer shall establish by rule the requirements for the recording of property owned by a local government that has a value or cost of \$1,000 or more and a projected useful life of one year or more, and for the periodic review of such property for inventory purposes. Department of Financial Services (DFS) Rule 69I-73.006(5), Florida Administrative Code (FAC), provides, among other requirements, that the custodian delegate shall not personally inventory items for which they are responsible. Our review of the District’s property inventory procedures disclosed that inventory lists were provided to the respective custodian delegates with instructions to obtain a “helper” to take the annual inventory. For internal control purposes, and to ensure compliance with DFS Rule 69I-73.006(5), FAC, it is important that the custodian delegates not be personally involved in the inventory of items for which they are responsible.

Recommendation: The District should enhance its property inventory procedures to ensure that custodian delegates are not personally involved in the inventory of items for which they are responsible.

Finding No. 9: Vehicle Usage and Maintenance

As of September 30, 2011, the District maintained 87 motor vehicles and watercraft for use by employees while conducting official business. The District's policy, as stated in the Manual, is that vehicles, watercraft, and equipment represent a substantial investment to the District, and that years of service can be realized when they are properly used and maintained. Chapter 7 of the Manual outlines the policies and procedures pertaining to such property.

Our review of the District's policies and procedures regarding vehicles disclosed the following:

- The Board had not adopted a vehicle use policy addressing the assignment of vehicles to employees on a full-time or periodic basis. The District's practice was for employees who drive vehicles to their residences overnight to note the date of the occurrence on their timesheets; however, no control was established by the District to identify the employees who take vehicles home overnight, but may fail to account for the occurrence on their timesheets, resulting in potential taxable fringe benefit implications with the Internal Revenue Service. An approved vehicle use policy documents management's intention for the usage of District vehicles.
- Section 7.2.5 of the Manual required vehicle users to complete a vehicle log that accounts for the date, driver, beginning and ending mileage, and to include comments regarding fuel purchases. However, the Manual did not require supervisory approval for vehicle use or periodic review of the vehicle logs by District management. Our review of vehicle logs disclosed that, although the District's facilities manager reviewed the logs monthly, no supervisory approval of vehicle use was included since it was not required by the Manual. Supervisory approval provides a record of management's oversight for vehicle usage. Including this requirement in the Manual, along with periodic reviews of vehicle logs, strengthens internal control over vehicle usage.
- Section 7.4 of the Manual provided detailed guidance for the maintenance and upkeep of vehicles in the District headquarters' motor pool. However, for the various vehicles in the field and branch offices (nonmotor pool vehicles), the Manual stated that maintenance was the responsibility of the users, but did not provide guidance on how this should be accomplished. Our review of vehicle maintenance practices in the field and branch offices disclosed that the practices varied depending on the office and type of vehicle. Guidance on preventative maintenance for all District vehicles that is clearly communicated to employees is necessary to help minimize vehicle repair or replacement costs.
- The Manual did not establish procedures for accounting for, or monitoring of, vehicle expenses, including vehicle maintenance thresholds. The District's facilities manager maintained vehicle records that included year-to-date and life-to-date amounts for repair and maintenance expenses for each vehicle in the motor pool. Our review of vehicle expenses for 10 vehicles in the motor pool disclosed that the vehicle records in many instances included misclassified maintenance and repair expenses, and, in some instances, expenses were not included in the vehicle record. Consistent and complete reporting of vehicle expenses assists in determining when various maintenance thresholds are met, and in vehicle replacement decisions.

Recommendation: The District should develop, and the Board should approve, a vehicle usage and maintenance policy that requires: supervisory approval of vehicle use; documented periodic reviews of vehicle logs by management; guidance on preventative maintenance for all District vehicles, including non-motor pool vehicles; and keeping of accurate vehicle expense records.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether the District’s internal controls relevant to the scope of the audit promoted and encouraged compliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; the economic and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets; and (2) evaluate the District’s performance in these areas.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions from October 2010 through September 2011 and selected actions taken prior and subsequent thereto.

Our audit methodology included obtaining an understanding of the internal controls by interviewing District personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the District’s compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

Our audit did not extend to an examination of the District’s financial statements. The District’s financial statements for the fiscal year ended September 30, 2011, were audited by a certified public accounting firm, and the audit report is on file with the District.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Organizational Issues	Reviewed the duties and responsibilities administratively assigned to the District, and examined and reviewed documentation such as organization charts and minutes of governing board meetings.
Written Policies and Procedures	Determined whether the District had written policies and procedures in place for major District functions.
Budgetary Control	Obtained the District's approved budget for the prior and current fiscal years and reviewed applicable policies and procedures for compliance with requirements established in law.
Cash Management	Obtained a list of cash collection points for selected reviews of physical security, and determined whether established policies and procedures were being followed. Also, reviewed bank reconciliations for completeness and supervisory approval.
Investments	Reviewed District policies governing investments to determine compliance with applicable laws, ordinances, bond resolutions, and other guidelines. Also, reviewed procedures for investing surplus funds.
Tangible Personal Property	Compared subsidiary ledgers with control accounts, physically inspected tangible personal property, and reviewed procedures for disposing of surplus property.
Long-Term Debt	Reviewed policies and procedures for issuing debt to determine compliance with applicable provisions of law.
Revenue and Cash Receipts	Reviewed policies and procedures for assessing and collecting permit fees, taxes, and other revenue sources to determine compliance with applicable provisions of law. Also, tested the accuracy of amounts collected and the timeliness of cash receipts deposited in the bank.
Payroll and Personnel	Selected a sample of payroll disbursements and performed tests to determine whether expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
Procurement of Goods and Services	Selected a sample of disbursements and performed tests to determine whether expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
Contracts	Selected a sample of contractual services payments and performed tests to determine whether expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
Insurance	Reviewed the methods used for acquiring commercial coverage to determine whether the basis for selecting the carrier was documented in the District's records and conformed to good business practice.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Wireless Communication Devices	Reviewed District policies and procedures to determine whether the District limited the use of, and documented the level of service for, wireless communication devices.
Motor Vehicle Assignment and Use	Determined whether adequate vehicle utilization records were maintained, and if District policies and procedures were followed.
Travel Expenditures	Selected a sample of travel expenditure payments and performed tests to determine whether expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.

EXHIBIT B
MANAGEMENT'S RESPONSE



Jonathan P. Steverson
Executive Director

Northwest Florida Water Management District

81 Water Management Drive, Havana, Florida 32333-4712
(U.S. Highway 90, 10 miles west of Tallahassee)

(850) 539-5999 • (Fax) 539-2777

July 31, 2012

Mr. David W. Martin, CPA, Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32333-4712

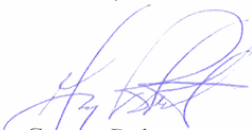
Dear Mr. Martin:


Enclosed, please find our written statement of explanation concerning the nine findings contained in the list of preliminary and tentative audit findings and recommendations as received on July 6, 2012.

District staff presented the findings, recommendations and proposed responses to the Governing Board on July 26, 2012. The Governing Board approved the responses as presented herein and authorized staff to submit the response on behalf of the Governing Board.

This Operational Audit for the period October 1, 2010 through September 30, 2011 provides an opportunity for improvement. We will use the report findings to enhance the comprehensive update and improvements planned for the District's operations and procedures manual.

Sincerely,


George Roberts
Governing Board Chair


Jonathan P. Steverson
Executive Director

GR/JS/jw
Enclosure

GEORGE ROBERTS
Chair
Panama City

JOYCE ESTES
Secretary-Treasurer
Eastpoint

JOHN ALTER
Malone

GUS ANDREWS
Defuniak Springs

STEPHANIE BLOYD
Panama City Beach

JERRY PATE
Pensacola

NICK PATRONIS
Panama City Beach

RALPH RISH
Port St. Joe

THIS PAGE INTENTIONALLY LEFT BLANK

Northwest Florida Water Management District Operational Audit

Finding No. 1: Fraud Policies

Recommendation: The District, with Board approval, should develop and implement fraud policies to aid in the detection and prevention of fraud.

NWFWMD Response:

The Governing Board and District management concur that a fraud policy is essential in deterring, identifying, and properly investigating fraud while protecting those who may be wrongfully accused. A policy is being developed that will specifically identify what constitutes fraud and how to report it. The policy will be distributed to all District staff and made available on the Intranet.

The District is in the process of selecting an Inspector General which is an integral part of the detection and investigation of suspected fraud. Once the Inspector General is selected the fraud policy will be completed.

In addition, the District is beginning a comprehensive review and revision of the Operations and Procedures Manual as well as providing easier access to the Ombudsman. The District has also added an anonymous employee suggestion box which is available on the Intranet. These improvements will contribute to better informed staff and easy access for staff to discuss and report any suspected violation of policy.

Finding No. 2: Inspector General

Recommendation: The District should ensure that the work plan for inspector general services includes audit areas for performance measures, standards, and procedures; that the services comply with specified principles and standards for inspectors general; and that the audits are conducted in accordance with appropriate auditing standards, as specified in Section 20.055, Florida Statutes. To promote accountability, integrity, and efficiency in District operations, the District should consider increasing inspector general audit efforts. In doing so, District personnel should prepare a formal analysis to determine whether to hire an employee to serve as inspector general or continue to use the services of an accounting firm. If it is determined that the use of an accounting firm is more cost-beneficial, the District should periodically employ a competitive selection process to select the firm.

NWFWMD Response:

The District's contractual agreement for Inspector General services expired after the completion of the Fiscal Year 2010-11 audit. The current firm provided services for six years, a minimum of five years is recommended. In May 2012 the Governing Board authorized the issuance of an RFP to procure Inspector General and internal audit services with the intent to issue a contract for one year - renewable on an annual basis for an additional 5 years. The RFP was issued on May 31 and responses received on June 12. The analysis of the proposal will be presented to the Board on July 26.

It is correct that there is no evidence that a formal analysis was prepared to support the decision to contract with an accounting firm for the services rather than hire an employee. However, the District has prepared an analysis which does support that it is significantly more cost effective to contract with an accounting firm.

Northwest Florida Water Management District Operational Audit

In addition to the cost difference the District supports the hiring of an accounting firm for several other reasons including:

- The District is very small with a current staffing level of 105 full time positions and 16 OPS/student positions. The duties of an Inspector General (IG) would not equate to a full time position at the District and the IG is prohibited from participating in most work activities due to the independence requirement. Therefore other duties could not be assigned to the position.
- In addition it would be a one person office which would make it difficult not to have social interaction and workplace friendships with staff that perform functions that are subject to audit. This could also jeopardize the integrity of the audit.
- In viewing the salaries of several small state agencies and commissions the average salary of an IG was \$82,300, with an estimated 35% benefit rate the annual cost would be \$111,000 plus the annual recurring costs for software, travel, training, telephones and supplies.
- If the District were to increase the hours of the IG services to 400 hours per year, based on the top ranked firm's average hourly rate of \$125 per hour, the contract cost would be \$50,000.

Staff recommends to the Governing Board that the Inspector General services continue to be performed on a contractual basis. Staff will ensure that the contract is properly prepared including a termination date, renewal options, and that the inspector general complies with the required principles and standards in preparing the internal audit services. The contract will also contain more specific requirements of the IG position beyond the internal audit functions. This will include the requirements of the Whistle Blowers Act.

Finding No. 3: Ombudsman

Recommendation: The Board should establish duties and responsibilities of the ombudsman position provided for in law, and clearly communicate the ombudsman's role to District employees and the general public. Consideration should be given to assigning the ombudsman role to a position that is independent of management.

NWFWMD Response:

The Governing Board and District management concur that the duties and responsibilities of the District's Ombudsman are very important and the citizens of our District should have knowledge of and access to the Ombudsman.

The Assistant Executive Director is a newly created position which will also serve as the District Ombudsman. The title of Ombudsman is listed as an official duty in the Assistant Executive Director's official position description, and the position has no direct supervision over staff. The District's Ombudsman will institute a tracking system for all correspondence between the District and the public, as well as a separate system for all public records requests submitted pursuant to Ch. 119, F.S. In addition, an email link to the Ombudsman has been placed in a conspicuous area of the District's website, and a clearer description of the Ombudsman's role will be placed on the website as well.

**Northwest Florida Water Management District
Operational Audit**

Finding No. 4: Secretary/Treasurer Position Vacancy

Recommendation: The Board should timely replace vacating officers to provide for the assignment of duties and responsibilities as required by law.

NWFWMD Response:

The Governing Board concurs that the timely replacement of officers is important to the Board's ability to conduct efficient District business. Currently, all officer positions are filled. Should a vacancy occur, the Board will instruct District staff to schedule the replacement of the officer for consideration at the next possible Board meeting.

Additionally, the Governing Board, consistent with the Operations and Procedure Manual (as updated August 2008), recently designated the Executive Director as the Assistant Secretary and delegated signature authority to the Executive Director for all documents which do not by law require the signature of the Governing Board. This delegation provides the continued efficient conduct of District Business.

Finding No. 5: Auditor Selection and Contract Requirements

Recommendation: The Board should ensure compliance with the auditor selection and contract requirements prescribed in Section 218.391, Florida Statutes.

NWFWMD Response:

The Governing Board and District management concur that a quality audit is essential to the reliability and completeness of the District's financial statements and determining the extent to which the District complied with applicable laws, rules, and regulations.

At the expiration of the current contract, the Board will appoint an audit selection committee and proceed with the selection process as required in Section 218.391, Florida Statute. The Board will ensure the required elements of a contract for audit services are adhered to in developing and executing the contractual agreement, including the expiration date and the options for renewal.

Staff will, for the duration of the contract, ensure that invoices submitted during the audit will include the level of detail sufficient to determine that the work performed and fees charged per the invoice are consistent with the contract.

Finding No. 6: Contract Monitoring System

Recommendation: The District should consider developing and implementing a computerized contract monitoring system that is integrated with its accounting records to better account for its contract balances.

NWFWMD Response:

The Governing Board and District management concur in the importance of an effective contract monitoring system providing the capability to obtain reliable contract balances and manage the amendment and renewal processes. The District also concurs that an automated

Northwest Florida Water Management District Operational Audit

system would reduce the opportunity for error, provide additional oversight and more efficient and effective contract management.

District staff is currently testing the contract management module of the MUNIS system used for accounting, budgeting and other applications. A MUNIS system upgrade is planned for late August and staff will review the changes to determine if improvements were made to the reporting capabilities. We will also look at options for a user friendly, off the shelf software package with the ability to interface with the MUNIS system. Additionally accounting staff has been advised to pay more attention to timely and accurate posting of contract payments.

Finding No. 7: Prohibition Against Contingent Fees

Recommendation: The District should include the prohibition clause in its contracts for professional services, as required by law.

NFWFMD Response:

The Governing Board and District management concur with the importance of the required prohibition clause in professional service contracts to ensure the District is protected from legal claims. Contract managers will be required to review all professional service contracts to identify which contracts do not include the required clause. Amendments will be made to contracts where appropriate. Staff will look for ways to ensure that the preparation and review processes are enhanced to prevent such an omission, including developing templates for contracts that meet all statutory requirements.

Finding No. 8: Annual Property Inventory

Recommendation: The District should enhance its property inventory procedures to ensure that custodian delegates are not personally involved in the inventory of items for which they are responsible.

NFWFMD Response:

The Governing Board and District management concur with the recommendation to enhance the property inventory procedures for compliance with FAC Rule 69I-73.006(5). The Operations and Procedures manual will be revised to reflect compliance.

Prior to the next required inventory the Property Administrator will develop a procedure and advise each Director of the necessary changes in assigning property custodians for the inventory process. The District has ordered an automated asset scanning system which will be used to improve the efficiency and accuracy of the asset inventory for assets costing over and under \$1,000.

Finding No. 9: Vehicle Usage and Maintenance

Recommendation: The District should develop, and the Board approve, a vehicle usage and maintenance policy that requires: supervisory approval of vehicle use; documented periodic reviews of vehicle logs by management; guidance on preventative maintenance for all District vehicles, including non-motor pool vehicles; and keeping of accurate vehicle expense records.

Northwest Florida Water Management District Operational Audit

NWFWMD Response:

The Governing Board and District management concur that procedures should be developed and approved providing for the oversight of vehicle assignment and approval for usage. Improvements that will be considered include supervisor approval being added to the vehicle reservation system and an option on the Authorization to Incur Travel form to indicate that a District vehicle will be used. The policy will include the process for authorization and reporting requirements for staff who drive vehicles to their residences overnight.

The policies and procedures are in need of significant update to capture current practices. The District currently uses Wright Express for fuel and light maintenance on all vehicles. The monthly statements, which are provided electronically, are divided by Division and are sent to the Division Directors, or designee, for review and approval. In addition, a quarterly report of all vehicles and all expenditures per vehicle is sent to each Division.

Section 7.4 of the Manual provides detailed guidance for the maintenance and upkeep of vehicles in the District headquarters' motor pool. The term "motor pool" includes all on-road vehicles. In Section 7.2, Vehicle Usage Policy states that district vehicles are classified as "pool assignment" and "special use assignment". The Facilities Manager provides maintenance notices for all on-road vehicles with reminders of needed maintenance; the mileage is captured from the vehicle logs and gas receipts and entered into a spreadsheet that is programed to provide notification at certain mileage indicators. Field staff is responsible for taking the vehicles in for needed maintenance. If maintenance receipts are not provided, additional reminders are sent.

It has been a general practice of the District for the facilities manager to maintain a record of all maintenance costs per vehicle. The current facilities manager has improved the system and provides the report to each Division on a quarterly basis; this is in addition to the Wright Express invoice.

As stated previously, the operations and procedures manual is extremely outdated and will be revised to expand the information provided as recommended and updated to provide current practices. A revised manual will be provided to the Governing Board for approval.

