

**SOUTHWEST FLORIDA
WATER MANAGEMENT DISTRICT**

Operational Audit



BOARD MEMBERS AND EXECUTIVE DIRECTORS

Southwest Florida Water Management District Board Members and Executive Directors who served from October 2011 through February 2013 are listed below:

H. Paul Senft, Chair
Douglas B. Tharp, Secretary to 9-25-12, Vice Chair from 9-25-12 (1) (2)
Hugh M. Gramling, Vice Chair to 8-28-12 (2) (3) (4)
Albert G. Joerger, Treasurer to 9-25-12, Secretary from 9-25-12 (1)
Jeffrey M. Adams, Treasurer from 9-25-12 (1)
Michael A. Babb
Carlos Beruff
Bryan K. Beswick (3) (5)
Jennifer E. Closshey
C.A. "Neil" Combee to 5-22-12 (6)
Wendy Giesy-Griffin from 9-6-12 (4)
Randall "Randy" Maggard from 10-19-11 (7)
George W. Mann from 11-1-12 (6)
Todd Pressman
Judith C. Whitehead (3) (5)

William S. Bilenky, Interim Executive Director to 10-3-11

Blake C. Guillory, Executive Director from 10-4-11

- Notes: (1) Per Board Policy 110-7, new officers will assume offices at the end of the election meeting.
(2) Vice Chair position was vacant from August 29, 2012, to September 24, 2012.
(3) Board member served beyond the end of term, March 1, 2012.
(4) Position was vacant from August 29, 2012, to September 5, 2012.
(5) Position was vacant from August 29, 2012, to February 28, 2013.
(6) Position was vacant from May 23, 2012, to October 31, 2012.
(7) Position was vacant from October 1, 2011, to October 18, 2011.

The audit team leader was Rachel P. Sellers, CPA, and the audit was supervised by Karen J. Collington, CPA. The information technology portion of this audit was conducted by Brenda Shiner, CISA, and Wayne Revell, CISA, and the supervisor was Tina Greene, CPA, CISA. 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) 412-2881.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

SOUTHWEST FLORIDA WATER MANAGEMENT DISTRICT

EXECUTIVE SUMMARY

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

GENERAL MANAGEMENT CONTROLS

Finding No. 1: Financial reporting procedures could be improved to ensure that fund balance accounts are properly classified.

PAYROLL AND PERSONNEL

Finding No. 2: The District made severance payments that exceeded the limitations provided by law.

CAPITAL ASSETS

Finding No. 3: Annual property inventories were performed by custodian or custodian delegates, contrary to rules of the Department of Financial Services.

Finding No. 4: The District needed to establish procedures for monitoring the assignment and use of wireless communication devices.

Finding No. 5: The District’s policies and procedures for vehicle management could be improved.

INSURANCE

Finding No. 6: The District had not competitively selected insurance providers, contrary to Section 112.08(2)(a), Florida Statutes.

INFORMATION TECHNOLOGY

Finding No. 7: The District had not fully developed an information technology governance framework.

BACKGROUND

Established in 1972, the Southwest Florida Water Management District protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the area it serves. The District is one of five water management districts created under the Water Resources Act of 1972 and includes the counties of Charlotte, Citrus, Desoto, Hardee, Hernando, Highlands, Hillsborough, Lake, Levy, Pinellas, Manatee, Marion, Pasco, Polk, Sarasota, and Sumter Counties. The District encompasses 10,000 square miles, or about 17 percent of the State’s total land area. Governance lies with a thirteen-member board consisting of nine representatives from the District’s five designated geographic areas and four at-large members. 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

General Management Controls

Finding No. 1: Fund Balance Reporting

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the preparation of its comprehensive annual financial report (CAFR)

for the fiscal year ended September 30, 2011. GASB Statement No. 54 establishes accounting and financial reporting standards for all governments that report governmental funds, clarified definitions for governmental fund types, and establishes criteria for classifying fund balances into specifically defined classifications based on the extent to which the funds are bound by external and internal constraints. Fund balance classified as nonspendable and restricted represent funds that cannot be spent or must be spent for specific purposes based on external or legal constraints. Fund balance classified as committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the Board). GASB Statement No. 54 provides that formal action to commit fund balance should occur prior to the end of the fiscal year; however, the amount may be determined in the subsequent year if the amount subject to the commitment is based on events, conditions, or results that were not known or finalized at the end of the fiscal year. Fund balance classified as assigned represents amounts constrained by the District's intent to be used for specific purposes, and fund balance classified as unassigned is essentially available to the District for any lawful District purpose.

GASB Statement No. 54 also permits stabilization arrangements to be reported as committed fund balance if the formal action establishing the stabilization arrangement identifies and describes the specific circumstances under which a need for stabilization arises. In addition to being specific, such circumstances should not be expected to occur routinely. Likewise, a stabilization amount that can be accessed to offset an anticipated revenue shortfall would not qualify to be reported as committed fund balance unless the shortfall was quantified and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations. Amounts that do not meet the criteria to be reported as committed should be reported as unassigned fund balance.

Our review of the District's compliance with GASB Statement No. 54 fund balance classification requirements within the CAFR for the fiscal year ended September 30, 2012, disclosed that the amounts reported as committed and assigned fund balance may have been misreported. Specifically, we noted the following:

- The District reported an economic stabilization reserve of \$18,700,000 as committed fund balance. District Policy 130-9, *Fund Balances*, defines the economic stabilization reserve fund as a reserve for any unforeseen or unexpected event or emergency, where the need cannot be addressed within the existing District budget, including the annual budget for contingencies. The amount of the reserve fund is equal to two months (17 percent) of operating expenditures based on the subsequent year's approved budget, with the amount resetting at the end of each fiscal year as part of the budget adoption process. Because Policy 130-9 does not sufficiently detail the circumstances that would constitute an unexpected event or emergency, the economic stabilization reserve does not appear to meet the criteria to be classified as committed and should have been classified as unassigned per GASB Statement No. 54.
- The District reported short-term project reserves of \$114,889,590 as assigned fund balance in the General Fund. District personnel indicated that the reserves were to sustain the District's annual funding commitment for its cooperative funding program, which includes water supply and resource development projects, and regional stormwater projects, and to stabilize revenues through the annual budget resolution until property values and ad valorem revenue increase in the future through normal growth. According to District personnel, such funding for the cooperative funding program annually totals \$54 million. District personnel further indicated that short-term project reserves were the result of excess funds, generally derived from projects canceled or withdrawn, that were not required in the current budget and each year through the budget process the Board authorizes any additional assignment through Board action. Information included in the District's 2012-13 fiscal year tentative budget document indicated that none of these reserves were anticipated to be used in the 2012-13 fiscal year and only \$57,470,503 was expected to be used during the period October 2013 through September 2017. Although the reserves were established for certain types of projects, District records did not evidence the specific purposes for which these resources were assigned, and did not demonstrate that the reserves were based on a known anticipated revenue shortfall that was distinguishable from shortfalls that occur during the normal course of the District's operations. As such, the short-term project reserves may have been more appropriately classified as unassigned fund balance.

- In the notes to the financial statements, the District reported encumbrances totaling \$59,509,326 in the General Fund as assigned fund balance. Our test of eight encumbrances totaling \$11,212,096 disclosed five totaling \$8,261,749 that were Board or management designations rather than encumbrances. Although these amounts were appropriately classified as assigned, they should not have been included as encumbrances in the notes to the financial statements.

When committed and assigned fund balance amounts are misreported, and encumbrances improperly disclosed in the notes to the financial statements, financial statement users may incorrectly assess the District’s financial position.

Recommendation: The District should ensure that it complies with the requirements of GASB Statement No. 54 by ensuring that items reported as committed and assigned fund balance are supported and meet the criteria defined by GASB Statement No. 54. The District should also ensure that encumbrances are properly disclosed in the notes to the financial statements.

Payroll and Personnel

Finding No. 2: Severance Pay

Section 215.425(1), Florida Statutes, states that no extra compensation shall be made to any officer, agent, employee, or contractor after the service has been rendered or the contract made. Section 215.425(4), Florida Statutes, provides that severance pay may be made, under certain conditions, pursuant to (1) an employment contract entered into, renewed, or renegotiated on or after July 1, 2011, whereby the severance pay does not exceed 20 weeks of compensation, or (2) the settlement of an employment dispute whereby the severance pay does not exceed 6 weeks of compensation.

Due to an anticipated reduction in ad valorem tax revenues, the District’s primary source of funding, and staff reorganization initiatives, on August 2, 2011, the Board approved allowing the Executive Director, in consultation with the Board Chair, to implement a staff reduction plan. The District offered four separation programs from August 2011 through January 2012, whereby employees could elect to separate from District employment effective on dates ranging from October 2011 through September 2013, depending on the separation program, and receive special consideration, payments, and benefits. The first separation program was offered to 32 employees selected for involuntary separation due to performance or disciplinary concerns while the remaining separation programs were offered to employees electing voluntary separation. From the initial separation program, 31 employees voluntarily separated and received the separation benefits while 1 employee did not accept the terms and was subsequently terminated without separation program benefits. District procedures for involuntary separations provided for up to 120 hours of administrative leave when an employee’s continued presence on the job was undesirable. The separation programs provided for six to eight weeks of wages and two to eight months of health and dental insurance premiums at no additional cost to the employees. Participation in a separation program required the employee to sign an agreement that released the District from any and all legal claims that existed as of the date of signing, regardless of whether such claims are known or unknown.

A total of 171 employees separated from October 2011 through February 2013 under the employee separation programs offered by the District. None of the 171 employees had employment contracts with the District and District records did not evidence the existence of employment disputes. The additional costs to the District for the separation programs through February 2013 were as follows:

- Six or eight weeks of base pay at a cost of \$1,243,251.
- Two to eight months of health insurance premiums at a cost of \$588,209.

- Two to eight months of dental insurance premiums at a cost of \$32,997.

As the District’s separation programs included extra compensation and benefits that were not provided pursuant to employment contracts or in settlement of employment disputes, the additional costs totaling \$1,864,457 were contrary to Section 215.425(1), Florida Statutes. In response to our inquiries, the District provided a legal opinion from its General Counsel that indicated the separation program agreements constitute employment agreements as contemplated in Section 215.425(4), Florida Statutes, which provides that a unit of government may enter into a contract or employment agreement that contains a provision for severance pay for up to 20 weeks of compensation with an employee. However, “severance pay,” as defined in that subsection, means the actual or constructive compensation, including salary, benefits, or perquisites, for employment services yet to be rendered and, in this case, the agreements were not for employment services yet to be rendered.

Recommendation: The District should ensure that future severance payment arrangements are in accordance with Section 215.425, Florida Statutes.

Capital Assets

Finding No. 3: 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 certain local governments, including water management districts, 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. The District reported tangible personal property totaling \$32,174,048 at September 30, 2012.

Our review of the District’s property inventory procedures disclosed that inventory lists were provided to the respective custodians, with exception of the Information Technology Bureau (ITB), and the custodians signed this listing attesting that they had physically inspected each of the items as marked. For the ITB, personnel independent of the custodians signed the listing attesting that they had physically inspected the items marked. However, contrary to DFS Rule 69I-73.006(5), FAC, custodians of District property, other than in the ITB, inventoried property items for which they were responsible. District personnel stated that as part of their procedures, random inventory audits were completed by employees independent of the custodian or custodian delegates as time permitted. However, during October 2011 through February 2013, random inventory audits were only completed for 36 items totaling \$530,751.

In May 2013, the Board revised its tangible personal property policy to prohibit custodians and custodian delegates from personally inventorying items for which they are responsible. Failure to maintain proper accountability over these assets increases the risk that loss, theft, or unauthorized use of property may occur without timely detection.

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

Finding No. 4: Wireless Services and Devices

Selected District employees utilized wireless communication devices (wireless devices), such as cellular telephones (cell phones), Blackberries, IPADs and broadband services (i.e. tablets, aircards, mobile hot spots and wireless IP modems) in performing their duties, in addition to utilizing radios that were handheld or mounted in District vehicles. During the period October 2011 through February 2013, the District paid two carriers \$413,457 to provide wireless device services. As of February 28, 2013, the District had assigned 196 cell phones, 81 blackberries, 126 broadband devices, and 27 iPads to 305 employees, in addition to utilizing 355 radios.

Although the District's personnel guidelines prohibit using District equipment, such as wireless communication devices, for personal use, the District had not established procedures for monitoring the assignment and use of wireless devices. Such procedures could include supervisory review of carrier invoices to ensure that assignment of the wireless device is justified based on actual use, and to provide limited assurance that the wireless device is not being used for personal use.

Our review of the listing of wireless devices maintained by the ITB, usage and billing data, and other District records, disclosed that the District paid \$8,398 for 33 aircards and 2 mobile hotspots assigned to 35 employees that had no usage from August 2012 through January 2013. Subsequent to our inquiry, ITB personnel stated they were conducting a review of all individually assigned aircards with a goal to reduce costs by sharing aircards with low utilization rates among multiple staff.

The absence of procedures for monitoring the assignment and use of wireless devices increases the risk that the District may be paying for wireless devices not needed or for charges that do not serve a public purpose.

Recommendation: The District should establish procedures for monitoring the assignment and use of wireless devices.

Finding No. 5: Vehicle Utilization

As of February 28, 2013, the District maintained a total of 272 vehicles, including 219 motor vehicles¹, 28 watercraft, and 25 all-terrain vehicles (ATVs), for use by employees while conducting official business. Our review of the District's policies and procedures and vehicle usage disclosed the following:

- Although the District established Procedure 51-1, Vehicle Use Guidelines, it only applied to motor vehicles and it was last updated in November 1998. The Board had not adopted vehicle use policies and procedures for the use of District watercraft and ATVs.
- The District required that utilization logs be completed when employees use District motor vehicles, watercraft, or ATVs. The logs provided information such as the purpose of the trip, operator, date of use, and odometer readings (or hours of usage for watercraft and ATVs). Our review of 4 quarterly motor vehicle odometer reports for 35 motor vehicles for the calendar year 2012, and weekly utilization logs for 18 watercraft and ATVs during the period of March 2012 through February 2013 disclosed no evidence of supervisory review. Absent evidence of supervisory review, there is an increased risk that motor vehicles, watercraft, and ATVs may not be used for authorized purposes.
- District Procedure 51-1 indicated that the Executive Director or his designee must provide written approval for permanent 24-hour motor vehicle assignments, the approval must show that it is in the best interest of the District, and unless otherwise stated, the approval is good for a maximum of one year. District records indicated that motor vehicles were assigned for 24-hour use to two employees, a Field Operations Manager

¹ Motor vehicles includes automobiles, sport utility vehicles, and trucks.

and a Land Use Specialist; however, District records did not evidence approval of the assignments by the Executive Director or his designee. For one of the two motor vehicles, a 2003 employment letter addressed to the Field Operations Manager indicated that the motor vehicle was to be assigned for 24-hour use to the employee for call-outs on District business; however, our review of the utilization logs disclosed that there were no call-outs for the period October 2011 through February 2013 for this vehicle. District records did not evidence justification for assigning the other vehicle for 24-hour use to the Land Use Specialist. Subsequent to our inquiry, on April 15, 2013, the authorization for 24-hour use was removed for the Land Use Specialist. Absent documented approvals and justifications for permanent 24-hour motor vehicle assignments, District records do not demonstrate that such assignments are in the District’s best interest.

- Our review of the odometer readings for 35 motor vehicles for the 2012 calendar year disclosed that 23 (66 percent) were used less than 12,000 miles, including 19 that were used less than 10,000 miles. In response to our inquiry, District personnel indicated that the District experienced a substantial reorganization during the period reviewed, including significant reductions in staffing levels, changes in work processes, and changes in individual work assignments. Since June 2011, the District reduced the number of motor vehicles (1-ton or less) by more than 12 percent. District personnel further indicated that 2 of the 23 motor vehicles were recommended for surplus, and 5 will be recommended for surplus if low usage continues.

Our review of the weekly utilization logs for nine ATVs for the period March 2012 through February 2013 disclosed that for two ATVs, logs were missing from 3 to 12 weeks. For the other seven ATVs, the number of working days used ranged from 9 to 66 days, or 5 to 33 percent of the one-year period. Additionally, the District purchased an ATV in June 2012 for \$9,897 and the budget request for the ATV noted that the vehicle would be used on a near daily basis. Our review of the usage from July 2012 through February 2013, noted that the ATV was used 54 days or 44 percent of the working days for the period reviewed. Subsequent to our discussions with the District, the District relocated ATVs to utilize them more efficiently and, by doing so, decided not to purchase two new ATVs. The District also established utilization targets for ATVs of 30 to 35 percent for operations management and 25 to 35 percent for land management.

As noted above, the results of our review indicate the need for improved monitoring of the usage of District vehicles. Without effective monitoring of vehicle utilization, the District cannot demonstrate the need to retain the vehicles or that they are being used effectively, which may result in unnecessary maintenance costs or unnecessary purchases of vehicles.

Recommendation: The District should establish written policies and procedures for the assignment and use of all District vehicles. Such policies and procedures should require documented periodic supervisory reviews of motor vehicle, watercraft, and ATV utilization logs, and periodic monitoring and evaluation of the usage and need for its motor vehicles, watercraft, and ATVs.

Insurance

Finding No. 6: Insurance Bids

Pursuant to Section 112.08(2)(a), Florida Statutes, before entering into any contract for health, accident, hospitalization, or all or any kinds of insurance for the officers and employees of the District, the District must advertise for competitive bids and the contract must be let upon the basis of such bids. During the period October 2011 through February 2013, the District’s premiums for health and dental insurance totaled \$9,004,450 and \$331,096, respectively.

Contrary to Section 112.08(2)(a), Florida Statutes, the District’s records did not demonstrate that a competitive selection process was utilized for procuring employee insurance. According to District personnel, in 2004 an insurance provider offered the District a fully insured dental plan at the same rates as were being charged for the District’s self-funded dental plan, which was losing money. No competitive selection process was utilized to obtain

this insurance provider and no competitive selection process has been utilized since contracting with the provider. For the District’s employee health insurance coverage, District personnel indicated that the insurance provider was selected using a competitive selection process around 1990 and the District has since negotiated coverage directly with the insurance provider.

In the absence of a competitive selection process, the District is not assured that it is obtaining insurance coverage at the lowest cost consistent with acceptable terms.

Recommendation: **The District should periodically bid its contracts for health and dental insurance, in accordance with Section 112.08(2)(a), Florida Statutes.**

Information Technology

Finding No. 7: Information Technology Governance Framework

Information technology (IT) governance should be a part of the overall governance of an entity but with a specific focus on improving the management and control of IT for the benefit of the primary stakeholders. IT governance includes defining, establishing, and aligning an IT governance framework with the overall entity governance and control environment. The IT governance framework is based on an appropriate IT process and control model and provides for unambiguous accountability and practices to avoid a breakdown in internal control and oversight. The IT governance framework ensures compliance with laws and regulations and alignment with the entity’s strategies and objectives. The IT governance framework also ensures the alignment of IT to the business in strategy and operations, encouraging co-responsibility between the business units and the IT unit for making strategic decisions and obtaining benefits from IT-enabled investments.

KPMG LLP (KPMG) performed an Information Technology Review and Analysis and provided a report to the District, dated April 27, 2012. As shown below in Table 1, the scope of KPMG’s review and analysis was divided primarily into six areas: Organization Structure, Application Portfolio, IT Governance and Project Management, IT Infrastructure, Desktop Systems, and Service Desk Support.

TABLE 1 OBSERVATIONS AND RECOMMENDATIONS FROM KPMG		
Areas of Scope	Observation Nos.	Total Observations
Organization Structure	1 – 8	8
Application Portfolio	9 – 17	9
IT Governance and Project Management	18 – 28	11
IT Infrastructure	29 – 39	11
Desktop Systems	40 – 42	3
Service Desk Support	43 – 46	4
Subtotal		46
Other	47	1
Total KPMG Observations and Recommendations		47

The KPMG report listed 47 observations and recommendations related to the District’s IT operations. Of the 47 KPMG observations and recommendations, 46 were categorized within the six areas of scope and the remaining observation and recommendation was categorized as “other” and encompassed a review of the prior 46 observations. The associated recommendation for the “other” observation provided that the District should ensure that policies and procedures in the six areas of scope were updated and formally implemented. We followed up to determine whether the District had addressed the 46 primary observations and recommendations made by KPMG.

As of November 25, 2013, the District had made significant progress toward completing corrective actions for the 46 primary KPMG observations. Of those 46 observations, the District completed corrective actions for 36 of the observations and substantially completed corrective actions with no control deficiencies noted for 3 of the observations. For the remaining 7 observations, although the District had partially completed corrective actions, control deficiencies still existed in three areas of scope as shown below in Table 2.

TABLE 2 PARTIALLY CORRECTED OBSERVATIONS WITH CONTINUED CORRECTIVE ACTIONS NEEDED		
Areas of Scope	Observation Nos.	Total Observations
Organization Structure	N/A	0
Application Portfolio	10 – 12	3
IT Governance and Project Management	21, 28	2
IT Infrastructure	36, 38	2
Desktop Systems	N/A	0
Service Desk Support	N/A	0
Total Partially Corrected Observations		7

Our audit disclosed the following status of the partially corrected observations that still need continued corrective actions:

TABLE 3 STATUS OF PARTIALLY CORRECTED OBSERVATIONS NEEDING CONTINUED CORRECTIVE ACTIONS AS OF NOVEMBER 25, 2013		
No.	Observation Nos.	Status
1	10	The District Information Technology Bureau (ITB) developers were in the process of correcting some of the user interface issues as Water Management Information System (WMIS) enhancements were completed. While the District had adopted a user interface guideline document, it had not developed a User Interface Standard for WMIS.
2	11	Although the District had conducted an architecture review of WMIS with a vendor, the draft document was under review by District ITB staff. The District expects to finalize the document by mid-December 2013.
3	12	The District evaluated the various data imports for consistency. ITB management eliminated Oracle Warehouse Builder data imports and was in the process of testing one last data pump for Water Quality. ITB management stated that the remaining data imports were operating effectively and ITB management determined that no additional changes were necessary.
4	21 and 47*	The District had developed and was operating according to the <i>Information Technology and Data Collection Governance</i> procedure; however, this procedure was a draft document that had not been adopted by the Board.
5	28	While the District had previously installed project management tracking software to manage the District's projects; it was never operational because it did not meet the District's needs. District personnel from the ITB and the Project Management Office had selected a project management tracking software product. The District expects to purchase the software in December 2013, install the software in January 2014, and implement it into production in April 2014.
6	36 and 47*	The District had developed a draft Disaster Recovery plan and, in May 2013, had successfully tested the ePermitting component of WMIS, which is the District's most critical system. However, the District had not completely developed all of the steps necessary to conduct a comprehensive test of all the District's IT resources. Additionally, the District anticipated creating a formal IT business continuity road map to encompass all the District's IT resources by December 31, 2013. This road map will define a 36 month plan for incrementally testing all IT business continuity plans (i.e., Disaster Recovery testing).
7	38	The District had selected the technology and vendor for replacing the existing storage area network (SAN). The procurement will be done in accordance with District Policy 15-1 (Procurement) and Procedure 150-1 (Procurement) with Board approval scheduled for December 17, 2013. The implementation of the new SAN is scheduled for completion by September 30, 2014.
* Observation No. 47 regarding implementing policies and procedures specifically addresses the same deficiencies noted in Observation Nos. 21 and 36.		

We have provided additional details regarding our evaluation of the District's implementation of KPMG's recommendations to District management.

Without a complete IT governance framework including associated policies, procedures, plans, and processes in place, there is an increased risk that the District's business needs will not be met.

Recommendation: The District should continue its efforts to develop and implement IT policies, procedures, plans, and processes to ensure that a complete IT governance framework is defined, established, and aligned with the District's overall enterprise governance and control environment.

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 from February 2013 to September 2013 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 objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this performance audit are described in Exhibit A. Our audit included selection and examinations of various records and transactions from October 2011 through February 2013, and selected actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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
Information Technology (IT) Organization Structure	Examined District organizational charts, position descriptions, policies and procedures, and plans related to the quality assurance function and the realignment of information technology (IT) positions (District personnel and contractors) to evaluate the status of the District's implementation of corrective actions recommended by KPMG.
IT Application Portfolio	Examined District documentation related to the District's applications (WMIS, HRIS, and ECM). For WMIS, reviewed change control, project completion strategy, performance and capacity analysis, and consistency in related interfaces. For HRIS, reviewed the replacement strategy, including the business case analysis. For ECM, reviewed the status of the document migration project. Also reviewed the District's new strategy for evaluating future IT initiatives, including a buy versus build analysis.
IT Governance and Project Management	Examined District IT governance and project management documentation including the draft 2013-2017 Information Technology Plan; IT governance procedures and templates; project management processes, including related budgeting and cost-allocation activities; and service-level agreements to evaluate the status of the District's implementation of corrective actions recommended by KPMG.
IT Infrastructure	Examined District IT infrastructure documentation related to operating systems migration, hardware replacement, data management, and disaster recovery strategies; capacity planning; and server security to evaluate the status of the District's implementation of corrective actions recommended by KPMG.
IT Desktop Systems	Examined District IT Desktop Systems documentation related to IT inventory and surplus IT property cleansing and disposition to evaluate the status of the District's implementation of corrective actions recommended by KPMG.
IT Service Desk Support	Examined District Service Desk Support documentation related to incident management, change management, and help desk procedures to evaluate the status of the District's implementation of corrective actions recommended by KPMG.
IT Bureau Policies and Procedures	Reviewed written policies and procedures related to the six topics noted above to determine whether the policies and procedures addressed certain important IT control functions as identified by KPMG.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Written Policies and Procedures	Determined whether the District had written policies and procedures in place for major District functions.
Related-party transactions	For selected District officials, reviewed Department of State, Division of Corporation records and District records to identify any potential relationships that represent a conflict of interest with District vendors.
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.
Fund Balance Classification	Reviewed resolutions committing fund balance for compliance with generally accepted accounting principles.
Investments	Reviewed District policies governing investments to determine compliance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed procedures for investing surplus funds.
Tangible Personal Property	Compared subsidiary ledgers with control accounts, physically inspected selected tangible personal property, and reviewed procedures for disposing of surplus property.
Revenues 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	Tested payroll disbursements to determine whether expenditures were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines.
Terminal Pay and Separation Agreements	Reviewed terminal payments and separation agreements for compliance with applicable laws, rules, regulations, District policies and procedures, and other guidelines.
Procurement of Goods and Services	Tested transactions to determine whether expenditures were made in accordance with applicable laws, rules, regulations, contracts, grant agreements, District policies and procedures, and other guidelines.
Purchasing Card Transactions	Tested transactions to determine whether purchasing cards were administered in accordance with District policies and procedures. Also, compared individual card usage to single and monthly transaction limits.
Land Acquisitions	Reviewed policies and procedures for land acquisitions and tested transactions to determine whether acquisitions were made in accordance with applicable laws, rules and regulations, contracts, grant agreements, District policies and procedures, and other guidelines.

**EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Contracts	Tested contractual services payments to determine whether expenditures were made in accordance with applicable laws, rules, regulations, contracts, grant agreements, District policies and procedures, and other guidelines.
Insurance	Reviewed the methods used for acquiring insurance coverage to determine whether the basis for selecting the carrier was documented in the District's records and conformed to good business practice.
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.
Vehicle Assignment and Use	Determined whether the District maintained adequate vehicle utilization, maintenance, and repair records, and whether routine monitoring was performed. Also, determined whether the District complied with United States Treasury Regulations regarding personal use of vehicles.
Travel Expenditures	Tested travel expenditures to determine whether expenditures were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines.
Social Security Number Requirements	Examined supporting documentation to determine whether the District had provided individuals with a written statement of the purpose for collecting their social security numbers as required by Section 119.071(5)(a), Florida Statutes.

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**EXHIBIT B
MANAGEMENT'S RESPONSE**



An Equal Opportunity Employer

**Southwest Florida
Water Management District**

2379 Broad Street, Brooksville, Florida 34604-6899
(352) 796-7211 or 1-800-423-1476 (FL only)
On the World Wide Web at WaterMatters.org

Bartow Service Office
170 Century Boulevard
Bartow, Florida 33830-7700
(863) 534-1448 or
1-800-492-7862 (FL only)

Sarasota Service Office
6750 Fruitville Road
Sarasota, Florida 34240-9711
(941) 377-3722 or
1-800-320-3503 (FL only)

Tampa Service Office
7601 U.S. 301 North (Fort King Highway)
Tampa, Florida 33637-6759
(813) 985-7481 or
1-800-836-0797 (FL only)

- Carlos Beruff**
Chair, Manatee
- Michael A. Babb**
Vice Chair, Hillsborough
- Randall S. Maggard**
Secretary, Pasco
- Jeffrey M. Adams**
Treasurer, Pinellas
- Todd Prossman**
Former Chair, Pinellas
- H. Paul Serft, Jr.**
Former Chair, Polk
- Bryan K. Beawick**
DeSoto, Hardee, Highlands
- Thomas E. Bronson**
Hernando, Marion
- David W. Dunbar**
Hillsborough, Pinellas
- Wendy Griffin**
Hillsborough
- George W. Mann**
Polk
- Vacant**
Charlotte, Sarasota
- Vacant**
Citrus, Lake, Levy, Sumter
- Blake C. Gullory**
Executive Director

December 18, 2013

Mr. David W. Martin, Auditor General
State of Florida Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Thank you for your time, efforts and professionalism in auditing the Southwest Florida Water Management District. The District is committed to maximizing the taxpayers' investment in our mission by operating effectively, efficiently and transparently. After reviewing your preliminary and tentative audit findings, we believe that we have addressed or are addressing each of the points raised. District actions include:

- (1) Working with its independent auditors to ensure that "committed," "assigned" and "encumbered" items are properly identified.
- (2) Continuing to adhere to state law when making severance payments.
- (3) Revising inventorying policies and procedures.
- (4) Recalling and redistributing wireless devices to improve both efficiency and production.
- (5) Enhancing supervisorial oversight of vehicle usage, including motor vehicles, watercraft and ATVs.
- (6) Soliciting bids or proposals for insurance coverage during this fiscal year.
- (7) Completing the District's approved, KPMG IT Operation action plan.

The Governing Board directs its inspector general to oversee District responses and activities in reference to external audit reports. Mr. Fritsch will report back to the Board in six and 18 months (if necessary) on our progress.

Thank you again for your work on behalf of the interests of the taxpayers of the Southwest Florida Water Management District.

Sincerely,

Carlos Beruff
Chair

cc: Governing Board
Robert R. Beltran
Kurt P. Fritsch