

**SOUTH FLORIDA
WATER MANAGEMENT DISTRICT**

Operational Audit



BOARD MEMBERS AND EXECUTIVE DIRECTORS

South Florida Water Management District Board Members and Executive Directors who served from October 2010 through June 2013 are listed below:

Joe Collins to 3-28-13, Chair from 3-10-11 to 3-13-13
Eric Buermann to 6-7-11, Chair to 3-9-11
Daniel T. O'Keefe from 5-10-11, Chair from 3-14-13 (1)
Kevin P. Powers, Vice Chair from 5-12-11 (2)
Charles J. Dauray to 5-9-11, Vice Chair from 3-10-11 to 5-9-11 (2)
Jerry Montgomery to 3-16-11, Vice Chair to 3-9-11 (1)
Rick Barber from 3-29-13 (3)
Anne "Sandy" Batchelor
Daniel DeLisi from 5-10-11 to 2-21-13 (3)
Shannon A. Estenoz to 12-10-10 (4)
Mitch Hutchcraft from 3-29-13
James "Jim" Moran from 5-10-11 (5)
Juan Portuondo from 6-8-11
Timothy W. Sargent from 5-10-11 (4)
Glenn J. Waldman

Blake Guillory, Executive Director from 9-5-13
Ernie Barnett, Interim Executive Director from 6-14-13 to 9-4-13
Melissa L. Meeker, Executive Director from 6-1-11 to 6-13-13
Tommy Strowd, Interim Executive Director from 5-1-11 to 5-31-11
Carol Wehle, Executive Director to 4-30-11

- Notes: (1) Board member position vacant from March 17, 2011, through May 9, 2011.
(2) Vice Chair position vacant from May 10, 2011, through May 11, 2011.
(3) Board member position vacant from February 22, 2013, to March 28, 2013.
(4) Board member position vacant from December 11, 2010, through May 9, 2011.
(5) Board member position vacant from July 20, 2009, through May 9, 2011.

The audit team leader was Diana G. Garza, CPA, and the audit was supervised by Ida Marie Westbrook, 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) 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.

SOUTH FLORIDA WATER MANAGEMENT DISTRICT

EXECUTIVE SUMMARY

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

ADMINISTRATIVE MANAGEMENT

Finding No. 1: The District had not implemented adequate policies and procedures for the mitigation, detection, and reporting of fraud.

Finding No. 2: The District needed to develop or enhance written policies and procedures for several functions related to its financial operations and related activities.

Finding No. 3: The District did not always comply with State or its own record retention requirements.

CASH MANAGEMENT CONTROLS

Finding No. 4: The District had not established procedures to ensure compliance with State requirements governing collateral management for public deposits.

Finding No. 5: The District's bank account reconciliation procedures needed improvement.

REVENUES AND COLLECTIONS

Finding No. 6: Controls over the District's general fee collections could be enhanced.

Finding No. 7: The District's permit fee refund procedures did not comply with law.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 8: The District's monitoring procedures of procurement card limits could be improved.

Finding No. 9: Controls over the District's communication expenditures could be improved.

INSURANCE

Finding No. 10: The District needed to enhance procedures to ensure its annual self-insurance plan reports are timely filed with the Florida Department of Financial Services, Office of Insurance Regulation.

BACKGROUND

Established in 1972, the South 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 Broward, Collier, Glades, Hendry, Lee, Martin, Miami-Dade, Monroe, Palm Beach, and St. Lucie Counties and portions of Charlotte, Highlands, Okeechobee, Orange, Osceola, and Polk Counties. Governance lies with a nine-member board consisting of representatives from specific geographic areas within District boundaries. 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

Administrative Management**Finding No. 1: Written Policies and Procedures - Fraud**

Policies and procedures for communicating and reporting known or suspected fraud are essential to aid in the detection and prevention of fraud. Such policies and procedures should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies and procedures 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 and procedures serve to clearly identify actions constituting fraud and to establish the responsibilities for investigating potential incidences of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent.

The District had not developed adequate policies and procedures for communicating and reporting known or suspected fraud. The District's fraud-related policies and procedures included Article III, Section 220.62, *Corrective Action Procedure*, which identified a corrective action plan in the event of employee misconduct; Article IV, Section 101.91, *Ethics*, which was adopted by reference to Part III, Chapter 112, Florida Statutes, entitled "Code of Ethics for Public Officers and Employees;" and Article V, Section 101, *Whistle-Blowers*, which identified the process for disclosing, investigating, and maintaining the confidentiality of information regarding allegations from whistleblowers. Although the District's policies and procedures addressed misconduct, ethics, and whistleblowing, they did not identify actions constituting fraud, reporting procedures for suspected fraud, responsibility for fraud investigation, and consequences for fraudulent behavior. In the absence of such policies and procedures, the risk increases that a known or suspected fraud may be identified but not reported to appropriate authorities.

Recommendation: The Board should revise its formal fraud policies and procedures to identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences of fraudulent behavior.

Finding No. 2: Written Policies and Procedures - Collections and Refunds

Written policies and procedures that clearly define the responsibilities of employees are essential to provide both management and employees with guidelines regarding the effective, efficient, and consistent conduct of District business and the effective safeguarding of District assets. Written policies and procedures also help ensure consistent continuation of critical business practices by assisting in the training of new staff or assisting in the implementation of changes in key controls or personnel. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed into operation, provide management additional assurance that District activities are conducted in accordance with applicable laws, ordinances, and other guidelines; and that District financial records provide reliable information necessary for management oversight.

During our review, we noted that written policies and procedures needed to be enhanced or established for the following functions:

- **Accounts Receivable.** The District's accounts receivable manual was last updated on October 29, 2009. Inquiry of District personnel disclosed that there had been significant changes in the District's organization that led to procedural changes that were not yet reflected in the manual.
- **Key Permit Access Refunds.** The District issued key permits for temporary access to District rights of way by local governments, contractors, and others. A key permit deposit was required for the key(s) issued to access the secured District properties. Upon return of the key(s), the deposit was refunded. However, the District had not developed written procedures relating to this process.

Recommendation: The District should develop or enhance written procedures for the above-noted areas and ensure that these procedures are continuously updated for changes in key controls or personnel.

Finding No. 3: Public Records Retention

Pursuant to Chapter 119, Florida Statutes, the District is required to maintain public records in accordance with the Florida Department of State's record retention schedule. Failure to maintain records in accordance with State law could result in District officials being subjected to the penalties specified in Section 119.10, Florida Statutes.

Our audit disclosed that the District did not always comply with State or its own record retention requirements, as follows:

- **Personnel Records.** According to the State's record retention schedule, personnel action forms must be maintained for 25 fiscal years after separation or termination of employment while direct deposit authorization forms must be maintained for 5 fiscal years after final action. While the District had no written procedures, District personnel indicated that any personnel forms older than two years were supposed to be filed and stored for future reference. Our test of 25 employees, who received salary payments during the months of March 2011, May 2012, and June 2013 disclosed that a direct deposit authorization form was not maintained for 20 employees and personnel action forms supporting current salaries and positions were not maintained for 7 employees. District personnel stated that former District personnel did not properly file all personnel forms and that all personnel forms were now scanned and stored in the District's online system. To provide for efficient personnel administration, the District should ensure that personnel files contain all required documentation, including documentation evidencing employee authorizations for direct deposit and personnel action forms.
- **Vehicle Usage Logs.** District procedures required that vehicle usage logs be maintained for at least one year after an applicable audit has been released, at which time District personnel must contact Records Management for log destruction.

As of June 2013, the District had 627 motor vehicles that were for use by District employees for official District business. For 15 vehicles, we selected a total of 70 months (the months of January 2011, July 2011, November 2011, March 2012, and June 2013 for 13 vehicles; the months of November 2011, March 2012, and June 2013 for 1 vehicle; and the months of March 2012 and June 2013 for 1 vehicle) to determine whether vehicle usage logs were properly maintained for these vehicles for the selected months. Our test disclosed that vehicle usage logs were not maintained for 23 of the 70 months. According to District personnel, there was a misunderstanding as to how long the logs should be kept on site; therefore, some of the logs were improperly destroyed or sent to the warehouse for storage but could not be located. Absent vehicle usage logs for each vehicle, District records did not evidence that vehicles were only used for authorized District purposes.

Recommendation: The District should ensure that all District records are maintained as required by Chapter 119, Florida Statutes. The District should also revise its record retention procedures to be consistent with the State's record retention schedule.

| |
|---------------------------------|
| Cash Management Controls |
|---------------------------------|

Finding No. 4: Collateral Management

Pursuant to Chapter 280, Florida Statutes, the District, as a public depositor, had moneys on deposit in banks that were qualified public depositories. Qualified public depositories are required by the State Chief Financial Officer (CFO) to pledge sufficient collateral to secure public deposits held. In connection with the administration of this collateral program, Section 280.17(2), Florida Statutes, requires each public depositor to execute a form prescribed by the CFO for identification of each public deposit account and obtain acknowledgement of receipt on the form from the qualified public depository at the time of opening the account, and maintain the current public deposit identification and acknowledgement form. Additionally, Section 280.17(5), Florida Statutes, requires each public depositor to confirm annually that public deposit information as of September 30 has been provided by each qualified public depository and is in agreement with public depositor records. Further, Section 280.17(6), Florida Statutes, requires each public depositor to submit, not later than November 30, an annual report to the CFO in a prescribed format.

The District's records did not evidence compliance with these requirements, including a Public Deposit Identification and Acknowledgement Form for each public deposit account; confirmations of public deposit information from the District's local depositories as of September 30, 2011, and 2012; and Public Depositor Annual Reports required to be filed by November 30, 2011, and 2012. If a public depositor does not comply with the requirements on each deposit account, the protection from loss provided in Section 280.18, Florida Statutes, is not effective as to that deposit account. In response to our inquiry, District personnel indicated that they were unaware of the statute and would begin filing as of November 2013.

Recommendation: The District should establish procedures to ensure compliance with State collateral management requirements.

Finding No. 5: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. As of June 2013, the District had 14 bank accounts and 1 e-recording account (Internet-based for customer payments).

District procedures required bank account reconciliations to be completed within 30 calendar days after receipt of bank statements. District personnel did not document the date bank statements were received, but indicated that bank statements were received 10 to 14 days after month end, resulting in a 44-day guideline for preparing the bank account reconciliations. Our test of 77 monthly bank account reconciliations from 6 bank accounts for the period November 2010 through June 2013 disclosed that 25 (32 percent) bank account reconciliations were prepared from 50 to 397 days after the bank statement date, or 6 to 353 days after the 44-day District guideline, with an average of 56 days after the 44-day District guideline.

District management indicated the delays were due to employee turnover and new employee training. The lack of timely bank account reconciliations increases the risk that errors or fraud could occur without being promptly detected.

Recommendation: The District should ensure that its established procedures are followed regarding the timely preparation of bank account reconciliations.

Revenues and Collections

The District has the authority to collect ad valorem (property) taxes from landowners within its 16-county jurisdiction. Tax revenues are the District's primary source of funds. Other sources include Federal and State revenue, license fees, regulatory fees, grants, agricultural taxes, investment income, and bond proceeds. Licenses and regulatory fees revenue includes income from the sale of vehicle license plates and various permit fees. The District collected revenue of approximately \$1,359,200,000 during the period October 2010 through June 2013. Of this total, approximately \$1,085,640,000 was received via electronic fund transfer, \$272,600,000 was received in person or through the mail and deposited through the District Cashier (Cashier), and \$960,000 was received electronically via the Internet.

Finding No. 6: Cash Collections

The District is responsible for establishing adequate controls to provide reasonable assurance that collections are safeguarded against loss from collection to deposit. The Cashier was responsible for collection and deposit of revenues and fees, including those received in person and through the mail at its Service Centers located in Ft. Myers, Naples, Okeechobee, and Orlando as well as at District Headquarters (Headquarters). District procedures required that collections received at decentralized locations be delivered to the Cashier for deposit as soon as possible but no later than two working days after receipt, and collections received at Headquarters be delivered to the Cashier for deposit within 24 hours. District procedures also required that cash receipts be deposited by the Cashier within 24 hours of receipt unless the aggregate daily receipts total less than \$125,000.

Our tests of 20 deposits totaling \$70,541,026 and 48 permit fee collections totaling \$33,000 disclosed the following:

- Receipts were not consistently issued for miscellaneous cash received. According to District personnel, receipts were offered, but only prepared for those individuals who requested them. For example, for 2 of 20 deposits tested, the deposits included employee reimbursements for personal use of District cell phones for which receipts were not prepared or issued to the employees. Without the use of receipts, the risk increases that collections may not be properly accounted for and timely deposited in the bank.
- Collections received through the mail were not recorded at the initial point of collection through the use of a mail log or other means. Without logging mail collections and subsequently comparing the collections to amounts recorded and deposited, the risk increases that collections may not be properly accounted for and timely deposited in the bank.
- Checks received by the Service Centers were not restrictively endorsed until received by the Cashier. When checks are not restrictively endorsed immediately upon receipt, the risk of misappropriation of collections is increased.
- Contrary to District procedures, cash receipts totaling \$125,000 or more were not deposited within 24 hours of receipt. Two of the 20 deposits tested contained receipts for permit fees, totaling \$332,514, which were deposited in the bank from 2 to 8 days after receipt. According to the Cashier, deposits were made more on a weekly basis rather than when the receipt reached \$125,000, contrary to the District's procedures. Untimely deposit of collections increases the risk of loss or theft of collections.
- For 6 of the 20 deposits totaling \$1,603,371, and 42 of 48 permit fees tested totaling \$30,600, the timeliness of deposit could not be determined because District records did not evidence the date the moneys were received, including 7 permit fees for which no transfer document was used to evidence the transfer of responsibility for the collections from the employees that collected the fees to the Cashier. Signed transfer

documents should be prepared, dated, and retained for cash from the time of collection to the time of deposit to fix responsibility in the case of loss or theft.

- Checks received for permit fees were not secured while the application was being processed. District personnel stated that fees for permits that had been processed by the permitting staff were kept in a locked cabinet; however, the application fees for unprocessed permits were kept under the cover pages of the application in an unlocked desktop tray until processing. When checks are not secured, the risk of misappropriation of collections is increased.
- Well permit applications received were manually recorded on a log sheet; however, if there were small wells on the same site, multiple permits were issued with only one associated fee. The District did not perform reconciliations of the number of well permits issued to the amount of revenue generated to ensure that all amounts due were received. Such reconciliations are necessary to ensure that collections are adequately supported and accounted for.
- One employee was responsible for issuing receipts for well permit applications, transferring the funds to the Cashier for deposit, recording the data in the regulatory database, and issuing the permit. The District issued 581 well permits totaling \$19,200, during the period October 2010 through June 2013. District personnel indicated that recent staff reductions resulted in only one employee assigned to well permit applications from processing to issuance. Absent an adequate separation of these duties, the risk of misappropriation of collections is increased.

Recommendation: The District should establish procedures that require issuance of receipts, a recording of all collections at the initial point of collection, restrictive endorsement of all checks upon receipt, dated evidence of transfers among employees, and a detailed listing of well permits that are reconciled to well permit fees collected. The District should also ensure that District policies and procedures are followed when securing collections until deposited and ensure that collections are deposited in a timely manner. In addition, the District should separate duties for well permit applications to ensure that one employee does not have access to all phases of a transaction or implement appropriate compensating controls.

Finding No. 7: Permit Fee Refunds

District Rule 40E-1.607, Florida Administrative Code, states that permit application processing fees are nonrefundable unless the proposed activity is found to be exempt or the amount is incorrect. During the period October 2010 through June 2013, the District issued 473 refunds, totaling \$548,140, related to 458 applications. Our inquiry disclosed that District practice was to issue the applicant a refund if the application was withdrawn within 30 days of receipt and District personnel extended minimal or no effort on the application (and therefore no value was received by the applicant). District personnel indicated that during the period October 2010 through June 2013, the District issued refunds totaling \$24,850 for 27 applications withdrawn within 30 days. However, this practice was contrary to the established Rule.

District personnel further advised us that the five water management districts and the Florida Department of Environmental Protection had proposed revisions to the Rule so that if an application is withdrawn and resubmitted within a one-year period, the fees paid on the initial application will be transferred to the resubmitted application. Subsequently, proposed revisions to the Rule were adopted effective October 1, 2013.

Recommendation: The District should ensure compliance with current regulations regarding permit application fee refunds.

| |
|--|
| Procurement of Goods and Services |
|--|

Finding No. 8: Procurement Cards

The District provides a procurement card (p-card) to approved employees in an effort to efficiently and effectively process and expedite low dollar purchases of goods and services. The District appointed several Purchasing Specialists and developed a comprehensive *Procurement Card Manual* that addresses the various management controls over the issuance, use, and cancellation of p-cards. Each p-card was issued in the name of the employee and the District, thereby identifying the individual as a governmental buyer. P-cards were subject to the same rules and regulations that applied to regular District purchases and the District established written p-card procedures to provide users with additional guidance on the proper use of p-cards. The District issued approximately 390 p-cards to employees, who incurred charges for purchased goods and services totaling \$6.9 million during the period October 2010 through June 2013.

Our comparison of usage to monthly credit limits during the period October 2010 through June 2013 for all cardholders disclosed the following:

- We noted 23 p-cards with credit limits ranging from \$1,500 to \$15,000 that were not used from October 2010 through June 2013.
- We noted 149 p-cards with credit limits ranging from \$1,500 to \$15,000 that had total actual charges that were less than 50 percent of the credit limits from October 2010 through June 2013.

District personnel stated that the risk associated with excess credit limits is acceptable given the District's internal control over p-cards. However, effective monitoring of the reasonableness of the p-card monthly credit limits reduces the risk that unauthorized purchases may be made and not detected in a timely manner.

Recommendation: The District should enhance its p-card controls to ensure a periodic review of the reasonableness of p-card limits and cancellation of any unnecessary p-cards.

Finding No. 9: Wireless Services and Devices

During the period October 2010 through June 2013, the District paid three carriers \$1,234,840 to provide wireless devices, and related services, throughout its 16 counties. As of June 2013, a total of 698 devices were provided to employees. The District's wireless procedures required department heads to review wireless device assignments annually during the budget development process; however, District records did not evidence that these reviews were performed. During four months we selected for testing, we noted a total of 97 wireless devices not used from two to four months, including 83 not used for two of the months tested, 8 not used for three of the months tested, and 6 not used for all four months tested. Monthly base fees for these unused devices ranged from \$5 to \$71.

Additionally, our test of six invoices for wireless devices for these same months disclosed that improvements in controls were needed, as follows:

- Four invoices totaling \$88,966 did not show evidence of preaudit or identification of any reimbursable personal calls. The IT Department forwarded the invoices to the appropriate department heads for review. After their initial review, the department heads distributed the invoices to their respective employees. The District used an "honor system" in which employees self-reported and reimbursed the District for their personal calls, while the department heads reviewed the calls identified by employees on a Monthly Cellphone Usage Sheet. However, the billings were not reviewed by department heads to ensure completeness of the charges identified as personal by users and subsequent reimbursements were not verified. Therefore, District

records did not demonstrate that all personal calls identified were reimbursed. Also, when personal calls are not timely and properly reimbursed, the District is paying for nonpublic purpose use.

- District policy (Section 230-113, Statements of Procedure) provided that all calls for incidental personal use and all non-business related uses were to be reimbursed within 30 days of receipt of the invoice. Payments were to be made to the District Cashier by cash or check. While the District had specific procedures in place, the procedures were not consistently enforced. According to District personnel, some employees submitted reimbursements within the 30-day guideline; however, others paid an entire year’s worth of reimbursements at once, contrary to the District’s policy.

A lack of effective monitoring procedures over the District issued wireless devices and usage/billing 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 enhance its monitoring procedures of wireless charges and of wireless device assignments to ensure that it is not paying for any unnecessary charges or costs. The District should also enhance its controls over the employee reimbursement process to ensure that all reimbursable calls are properly identified, reviewed, accounted for, subsequently reimbursed, and properly recorded in a timely manner.

| |
|------------------|
| Insurance |
|------------------|

Finding No. 10: Self-Insurance Plan

The District provides for general, health, automobile, and workers’ compensation coverage through a self-insurance plan pursuant to Section 112.08, Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to annually submit its self-insured plan, along with a certification as to the actuarial soundness of the plan, to the Florida Department of Financial Services, Office of Insurance Regulation (OIR) to obtain approval of the plan. This section further provides that the OIR will not grant approval of the self-insured plan unless it determines that the plan is designed to provide sufficient revenues to pay current and future liabilities as determined according to generally accepted actuarial principles. After implementation of the approved plan, the District must annually submit to the OIR a report that includes a statement prepared by an actuary as to the actuarial soundness of the plan. The annual report is due 90 days after the close of the fiscal year of the plan, and since the District’s plan year closes on December 31, the annual report should be filed by March 31 of each year.

District records did not evidence that the reports for the plan years ended December 31, 2011 or 2012, were timely submitted to the OIR. Further, as of August 2, 2013, OIR’s Web site did not list the District as having filed this information for the plan years ended December 31, 2011 or 2012. Untimely filing of annual reports limits the OIR’s ability to properly monitor the District’s plan.

Recommendation: The District should enhance its procedures to ensure that annual self-insurance plan reports are timely filed with the OIR.

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 June 2012 to August 2012 and from February 2013 to October 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 2010 through June 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(2)(f), 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 budgets for the 2010-11 and 2011-12 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 account reconciliations for timeliness, completeness, and supervisory approval. Also, reviewed District procedures to ensure that electronic funds transfers were properly authorized, processed, and documented. Reviewed banking agreements and electronic funds transfer agreements for sufficiency in providing adequate safeguards. |
| 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 and reviewed procedures for disposal of surplus property. |
| Long-Term Debt | Reviewed policies and procedures for issuing debt to determine compliance with applicable provisions of laws, rules, regulations, District policies and procedures, and other guidelines. |
| 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 laws, rules, regulations, District policies and procedures, and other guidelines. 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. Also, reviewed severance payments to ensure compliance with Section 215.425, Florida Statutes. |
| Procurement of Goods and Services | Tested disbursements to determine whether expenditures were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed District's controls over procurement cards. |

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

| Scope (Topic) | Methodology |
|----------------------------------|---|
| Contracts | Tested contractual services payments to determine whether they were made in accordance with applicable laws, rules, regulations, contracts, District policies and procedures, and other guidelines. |
| Land | Tested land acquisitions, disposals, and lease transactions and performed tests to determine whether transactions were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed the District's controls over land transactions. |
| Insurance | Reviewed the methods used for acquiring commercial insurance coverage to determine whether the basis for selecting the carrier was documented in the District's records and conformed to good business practices. Also, for the District's self-insured policies, reviewed evidence of reporting to the Office of Insurance Regulation the statement prepared by an actuary as to the actuarial soundness of the self-insurance plan. |
| Communication Devices | Reviewed District policies and procedures to determine whether the District limited the use of, and documented the level of service for, land-line and wireless communication devices. |
| Motor Vehicle Assignment and Use | Determined whether the District maintained adequate vehicle utilization records, and whether District policies and procedures were followed. Also, reviewed District records to determine whether repair parts purchased or issued from inventory were properly recorded in motor vehicle inventory and repair records. |
| Travel Expenditures | Performed an analysis of travel expenditures for the 2009-10, 2010-11 and 2011-12 (through May 2012) fiscal years and compared to number of employees to determine materiality and reasonableness. Also reviewed District controls over travel expenditures. |

EXHIBIT B
MANAGEMENT'S RESPONSE



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

January 9, 2014

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

Subject: Response to the preliminary and tentative audit findings

Dear Mr. Martin:

Per your letter to the South Florida Water Management District (District), dated December 11, 2013, enclosed please find the District's responses to the preliminary and tentative audit findings and recommendations made as the result of your operational audit of the District.

I would like to thank you for the opportunity to respond to the tentative audit findings for inclusion in the final report. Also, the District would like to take this opportunity to commend your audit staff for the courtesy and professionalism they exhibited during the audit.

Should you need anything further, please contact Christian Flierl, Finance Bureau Chief, at (561) 682-6078 or cflierl@sfwmd.gov.

Sincerely,

A handwritten signature in blue ink that reads "Dan O'Keefe".

Daniel O'Keefe
Governing Board Chairman

DO/ad
Enclosures

c: SFWMD Governing Board Members
Blake Guillory, Executive Director
Dan DeLisi, Chief of Staff
Len Lindahl, Assistant Executive Director
Timothy Beirnes, Inspector General
Doug Bergstrom, Administrative Services Director
Chris Flierl, Finance Bureau Chief

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 1: Written Policies and Procedures - Fraud

Recommendation 1 – The Board should revise its formal fraud policies and procedures to identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences of fraudulent behavior.

Management Response

While the District does not have a separate Fraud Policy, we believe that the provisions included in various District documents including the *Office of Inspector General Operating Manual*, the *Whistle-Blowers Policy* and *Corrective Action Procedure* provide guidance as to actions constituting fraud, reporting procedures for suspected fraud, responsibility for fraud investigation, and consequences for fraudulent behavior. However, we will review those documents and make revisions to them if deemed necessary.

Finding No. 2: Written Policies and Procedures – Collections and Refunds

Recommendation 2 – The District should develop or enhance written procedures for the above-noted areas and ensure that these procedures are continuously updated for changes in key controls and personnel.

Management Response

Accounts Receivable

The District concurs with the recommendation and will be evaluating the accounts receivable process and procedures and make the appropriate changes.

Key Permit Access Refunds

The District has assembled a team to re-evaluate and document the key deposit process. The goal is to design a process that is efficient and effective and which contains internal controls to ensure that District and stakeholder assets are properly safeguarded. Once completed, this process will become the basis for a procedure that will be included in the District Policies and Procedures Manual.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 3: Public Records Retention

Recommendation 3 – The District should ensure that all District records are maintained as required by Chapter 119, Florida Statutes. The District should also revise its record retention procedures to be consistent with the State's record retention schedule.

Management Response

Personnel Records

The District strives to follow State record retention guidelines. In addition, personnel records are scanned and stored electronically on a bi-weekly basis coinciding with payroll processing. Further, as a result of the audit the District will now maintain the *Authorization for Direct Deposit* forms with the scanned Personnel files as opposed to the maintaining them with the payroll records as was previously done.

Vehicle Usage Logs

The District will be implementing an electronic storage system for *Vehicle Usage Logs*. This documentation will be stored on one of the District's data servers for a period of time no less than that specified by the State in Item #224 of the General Records Schedule GS1-SL for State and local Government Agencies.

Finding No. 4: Collateral Management

Recommendation 4 – The District should establish procedures to ensure compliance with State collateral management requirements.

Management Response

The fiscal year 2013 report was filed in a timely manner and subsequent year's filings have all been scheduled to ensure timely filing. Going forward the District will incorporate the filing of the *Public Depositor Annual Report* as a part of its year end closing procedures.

Finding No. 5: Bank Account Reconciliations

Recommendation 5 – The District should ensure that its established procedures are followed regarding the timely preparation of bank account reconciliations.

Management Response

The reconciliations in question that were late were the result of the loss of the staff person responsible for performing the reconciliations. This condition was also noted by our external auditors who included it in their Management Letter. Since then the position has been refilled, the District has been performing timely reconciliations, and our external auditors have cleared their comment.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 6: Cash Collections

Recommendation 6 – The District should establish procedures that require issuance of receipts, a recording of all collections at the initial point of collection, restrictive endorsement of all checks upon receipt, dated evidence of transfers among employees, and a detailed listing of well permits that are reconciled to well permit fees collected. The District should also ensure that District policies and procedures are followed when securing collections until deposited and ensure that collections are deposited in a timely manner. In addition, the District should separate duties for well permit applications to ensure that one employee does not have access to all phases of a transaction or implement appropriate compensating controls.

Management Response

As a result of the audit the District has taken certain steps to enhance controls over the cash receipt process including:

- restrictively endorsing all checks received at the point of collection,
- date stamping checks received directly by the Cashier,
- recording, either on a transfer document or on the face of the check, the date of original receipt for checks not directly received by the Cashier,
- maintaining checks and cash in a secure location until deposited with the bank, and
- limiting the amount of checks and cash on hand to no more than \$125,000.

We will continue to evaluate cash receipts processes in light of the risks identified by the audit and will make the appropriate changes to mitigate those risks.

Further, in light of the concerns expressed in the audit about controls over the well permitting process, including reconciliations and segregation of duties, the District will reevaluate that process and make the appropriate cost effective changes to mitigate those risks.

Finding No. 7: Permit Fee Refunds

Recommendation 7 – The District should ensure compliance with current regulations regarding permit application fee refunds.

Management Response

It should be noted that refunds given, between October 2010 and June 2013, as a result of the District's policy of refunding application fees if the application was withdrawn within 30 days of receipt and District personnel expended minimal or no effort, represented approximately 5% of total refunds given during that time frame (27 permits totaling of \$24,850 in fees). Despite the relative immateriality of the dollars associated with this business friendly practice, the District will work to have rule 40E-1.607 changed to allow for this specific refund.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 8: Procurement Cards

Recommendation 8 – The District should enhance its p-card controls to ensure a periodic review of the reasonableness of p-card limits and cancellation of any unnecessary p-cards.

Management Response

The District has reviewed both the P-card limits and the P-cards which have low utilization and has concluded that P-card limits are appropriate at the current established levels due to the emergency response role of District employees in the event of hurricanes or other disasters. Also, the District has reviewed all P-cards for low utilization. As a result three (3) have been cancelled for non-use. This review will continue on an ongoing basis.

Several measures help mitigate the risk of P-card misuse at the District: 1) an independent auditor is hired to conduct annual reviews of P-card usage and the results demonstrate strong compliance by cardholders; 2) the District closely monitors P-card usage and program compliance by reviewing a large sample size of monthly statements; and 3) the District is piggybacking the State contract with Bank of America which includes no liability for lost or stolen P-cards or fraudulent purchases.

Finding No. 9: Wireless Services and Devices

Recommendation 9 – The District should enhance its monitoring procedures of wireless charges and of wireless device assignments to ensure that it is not paying for any unnecessary charges or costs. The District should also enhance its controls over the employee reimbursement process to ensure that all reimbursable calls are properly identified, reviewed, accounted for, subsequently reimbursed, and properly recorded in a timely manner.

Management Response

In order to enhance the ability to monitor wireless charges and wireless device assignments the District recently purchased VeraSMART Wireless Call Accounting Software. With this software the District will be able to more easily identify wireless devices with low or no usage. This information will be forwarded monthly to the end user's manager for review and justification for continuing phone services.

Regarding the risks that have been identified in the audit concerning reimbursement for personal calls made using District wireless devices, the District will reevaluate that process in light of the risk that this poses to the District and will take the appropriate cost effective actions to mitigate those risks.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 10: Self-Insurance Plan

Recommendation 10 – The District should enhance its procedures to ensure that annual self-insurance plan reports are timely filed with the OIR.

Management Response

This responsibility has been assigned to the Finance Bureau who will prepare plan financial statements for the plan year (calendar year) to provide to the plan actuary who will prepare the report for submission to the OIR by the March 31 deadline.