

**SUWANNEE RIVER
WATER MANAGEMENT DISTRICT**

Operational Audit



BOARD MEMBERS AND EXECUTIVE DIRECTORS

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

Donald J. Quincey, Jr., Chair
Alphonas Alexander, Vice-Chair
Donald Ray Curtis III, Secretary/Treasurer
Kevin W. Brown
Dr. George M. Cole
Heath Davis to 8-14-12 (1)
Virginia H. Johns from 3-1-12 (2)
Gary F. Jones from 11-7-12 (1)
Carl E. Meece
Guy N. Williams

Dr. Ann B. Shortelle, Executive Director from June 12, 2012 (3)
David Still, Executive Director to February 27, 2012 (3)

Notes: (1) Board member position remained vacant from August 15, 2012, to November 6, 2012.
(2) Board member position remained vacant to February 28, 2012.
(3) Executive Director position remained vacant from February 28, 2012, to June 11, 2012.

The audit team leader was Glenda K. Hart, CPA, and the audit was supervised by Cathy L. Bandy, 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.

SUWANNEE RIVER WATER MANAGEMENT DISTRICT

EXECUTIVE SUMMARY

Our operational audit of the Suwannee River Water Management District (District) disclosed the following:

ORGANIZATION AND GENERAL MANAGEMENT CONTROLS

Finding No. 1: District records did not evidence that the inspector general duties designated to an employee, and then to an accounting firm, were consistent with those required by law. In addition, the District did not use a competitive selection process to acquire inspector general services from the accounting firm.

Finding No. 2: The District's record retention policy was not consistent with the Florida Department of State's record retention requirements.

BUDGETARY CONTROLS

Finding No. 3: The District needed to enhance its procedures for ensuring that expenditures are limited to budgeted amounts.

CASH CONTROLS AND ADMINISTRATION

Finding No. 4: The District had not implemented adequate separation of duties for the cash collections and revenues, accounts payable, and payroll and personnel functions.

Finding No. 5: The District's banking agreements did not properly assign authority to adequately protect public funds nor were they updated timely for personnel changes.

Finding No. 6: The District needed to enhance its controls over electronic funds transfers.

Finding No. 7: Interest earnings on pooled accounts were not properly allocated to the fund that produced the earnings.

Finding No. 8: The District did not properly account for a deposit held in escrow for a land exchange transaction and, consequently, did not ensure the timely return of the deposit when the transaction was canceled.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 9: Policies and procedures for purchasing cards needed to be enhanced to ensure that purchases were in accordance with District policies and procedures and served an authorized public purpose.

Finding No. 10: The District needed to establish policies and procedures to ensure that land acquisition agreements are consistent with the District's statutorily defined responsibilities to protect and conserve the State's water resources.

PAYROLL AND PERSONNEL

Finding No. 11: The District made payments for accumulated unused annual leave to terminated employees that were not in compliance with Florida Statutes.

Finding No. 12: The District provided enhanced separation benefits totaling \$53,260 to several former employees that appeared to be contrary to Section 215.425, Florida Statutes.

CAPITAL ASSETS

Finding No. 13: The District did not maintain subsidiary records for land, land improvements, and easements totaling \$212,164,511.

Finding No. 14: The District needed to enhance its controls over tangible personal property.

MOTOR VEHICLES

Finding No. 15: The District needed to strengthen controls over the use of District-owned vehicles.

Finding No. 16: The District did not document the public purpose and benefit for two leased vehicles.

BACKGROUND

Established in 1972, the Suwannee River Water Management District protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the 15 counties it serves. The District is one of five water management districts created under the Water Resources Act of 1972 and includes all or part of Alachua, Baker, Bradford, Columbia, Dixie, Gilchrist, Hamilton, Jefferson, Lafayette, Levy, Madison, Putnam, Suwannee, Taylor, and Union Counties. Governance lies with a nine-member board consisting of one representative of each of the District’s five hydrologic basins and four members that serve at-large. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor.

FINDINGS AND RECOMMENDATIONS

Organizational and General Management Controls

Finding No. 1: Inspector General

Section 373.079(4)(b), Florida Statutes, requires the Board to employ an inspector general who must report directly to the Board. The law also provides that the governing boards of the District and the Northwest Florida Water Management District may jointly employ an inspector general, or provide for inspector general services by interagency agreement with a State agency or water management district inspector general. An inspector general must have the same qualifications and perform the applicable duties of State agency inspectors general as provided in Section 20.055, Florida Statutes.

The District designated a District employee as the Inspector General until December 11, 2012. Effective December 31, 2012, the Board contracted with an accounting firm to perform the duties of an inspector general. However, District records did not evidence that a formal analysis was prepared to support the decision to outsource the inspector general. Such analysis should include a determination of the nature and extent of inspector general services to be provided and a comparison of the cost to contract for such services with the cost to hire a qualified employee. In addition, the District did not select the firm using a competitive selection process. Use of a competitive selection process provides an effective means of procuring services at the lowest cost consistent with desired quality, and demonstrates that services were procured in a fair and equitable manner.

Pursuant to Section 20.055(2), Florida Statutes, the inspector general’s duties and responsibilities include providing direction for, supervising, and coordinating audits, investigations, and management reviews relating to the programs and operations of the District, and development and review of performance measures, standards, and procedures for the evaluation of District programs. Although the District’s Inspector General submitted audit plans to the Board for the 2010-11, 2011-12, and 2012-13 fiscal years, no audits, investigations, or management reviews were performed, or reported to the Board, by the District employee or the accounting firm as of September 30, 2013, pursuant to these audit plans. Additionally, the audit plans did not include development of performance measures, standards, or procedures. In a September 27, 2013, letter to the Auditor General, the Executive Director indicated that our report would be used in place of internal audit reports for the 2012-13 fiscal year.

The inspector general should provide a central point for coordination of, and responsibility for, activities that promote accountability, integrity, and efficiency in government. While the law does not specify the extent to which inspector general services should be used, simply designating an employee within the organization as an inspector general without any requirement to perform the statutorily assigned duties and responsibilities of an inspector general, and designating our audit as a substitute for inspector general services, does not appear to meet the requirements of Sections 20.055 and 373.079(4)(b), Florida Statutes.

Recommendation: The District should perform a formal analysis to determine whether the inspector general duties should be conducted by an employee or outsourced. If the analysis determines outsourcing is in the District's best interest, the District should consider using a competitive selection process for the acquisition of inspector general services. In addition, the District should ensure that inspector general duties and responsibilities are performed in accordance with Section 20.055, Florida Statutes.

Finding No. 2: Public Records

Pursuant to Chapter 119, Florida Statutes, the District is required to maintain public records that are, with some exceptions, to be open for public inspection. Such records must be maintained in accordance with the Florida Department of State's General Records Schedule for State and Local Governments (GS1-SL). The retention periods set forth in the GS1-SL are based on Federal and State laws and regulations, general administrative practices, and fiscal management principles. The GS1-SL states that "Records retention schedules apply to records regardless of their physical format. Therefore, records created or maintained in electronic format must be retained in accordance with the minimum retention requirements presented in these schedules, whether the electronic records are the record copy or duplicates." 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.

There is no single retention period that applies to all electronic messages or communications. Retention periods are determined by the content, nature, and purpose of records, and are established based on their legal, fiscal, administrative, and historical values, regardless of the format in which they reside or the method by which they are transmitted. Electronic communications, as with records in other formats, can have a variety of purposes and relate to a variety of program functions and activities. The retention of any particular electronic message will generally be the same as the retention for records in any other format that document the same program function or activity. For example, electronic communications might fall under a "CORRESPONDENCE" series, a "BUDGET RECORDS" series, or one of numerous other series, depending on the content, nature, and purpose of each message. Electronic communications that are created primarily to communicate information of short-term value, such as messages reminding employees about scheduled meetings or appointments, might fall under the "TRANSITORY MESSAGES" series. The GS1-SL further provides that the retention period stated in the applicable schedule is the minimum time a record must be maintained. If two or more record series are filed together, the combined file must be retained through the longest retention period of those records.

The District's policy is to destroy all District e-mail records older than one year since District management considers all e-mail records to be transitory in nature. However, we determined that the District used e-mails to address the following types of records included in the GS1-SL: Correspondence and Memoranda - Administrative, with a retention period of three years and Correspondence and Memoranda - Program and Policy Development, having a retention period of five years. Since the District does not have a system or process to sort and categorize e-mail records by record type (i.e., transitory, correspondence, budget record, etc.), the District may be required by law to maintain e-mail records for a much longer period than the one-year retention period currently utilized by the District.

By failing to adhere to the GS1-SL, the District’s one-year retention schedule for e-mail records prohibits adequate access to public records and the District may also be in violation of Federal or State laws and regulations depending on the record destroyed.

Recommendation: The District should establish procedures to ensure all records, including e-mails, are retained for the minimum timeframes in accordance with Section 119.01, Florida Statutes, and the GS1-SL.

Budgetary Controls

Finding No. 3: Budget Adoption, Reporting, and Monitoring

According to the Government Finance Officers Association’s *Recommended Budget Practices of the National Advisory Council on State and Local Budgeting (1998)*, regular monitoring of budgetary performance provides an early warning of potential problems, gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident, and is essential to demonstrating accountability. The process for adopting and amending the budget should afford a governmental entity with a mechanism to plan a level of expenditures to meet its obligations while remaining within the financial resources available to the entity to meet those obligations. If the entity does not properly monitor the budget, there is an increased risk that an entity’s expenditures will exceed available resources.

Pursuant to Section 373.536(4), Florida Statutes, the final adopted budget for the District is the operating and fiscal guide for the District for the ensuing year and expenditures must be controlled at a minimum by fund.

Budget Adoption and Reporting. According to the District’s 2011-12 fiscal year notes to the financial statements, the District established the legal level of budgetary control (i.e., the level at which expenditures may not legally exceed amounts budgeted) at the fund level. However, while the District adopted a separate budget for the General Fund, the District adopted one combined budget for all of its special revenue funds. As a result, the District did not control its expenditures by fund, contrary to Section 373.536(4), Florida Statutes. The District had 25 special revenue funds, of which 17 reported expenditures per the District’s accounting records. Supporting schedules to the District’s budget provided detail by program (e.g., water supply and resource management and mission support) but these were not presented by fund.

We compared the original budget as presented in the District’s 2011-12 fiscal year financial statements to the District’s Board-approved budget for the General Fund and noted differences in four budget line items ranging from a negative \$789,876 to a positive \$462,786. The original budget for the Land Management and Acquisition Fund (a special revenue fund) presented in the District’s 2011-12 fiscal year financial statements could not be verified to the original budget approved by the Board since the original budget included all special revenue funds combined and District records did not evidence a breakdown by individual special revenue fund.

Budget Monitoring. District personnel could not record budget information in its accounting system because the District did not purchase the budget module as part of its accounting software package. Rather, the District relied on its software maintenance contractor to manually record the Board-approved original budget for the fiscal year and the end-of-fiscal year final budget adjustment information in the accounting software system. Additionally, the final budget adjustment information was prepared and recommended by the District’s external financial statement auditor after year-end while performing the annual financial audit pursuant to Section 218.39, Florida Statutes.

During the fiscal year, District personnel did not monitor the budget using the accounting records but instead maintained a separate budget record using electronic spreadsheet software, and monthly budget-to-actual expenditure

comparison reports were submitted to the Board. However, the monthly reports presented budget-to-actual expenditures by department rather than by fund. Consequently, budget overexpenditures at the fund level, the District's legal level of budgetary control, may not have been evident to the Board.

Without an effective budgetary control system, District personnel cannot effectively monitor District expenditures to ensure compliance with the legal level of budgetary control.

Recommendation: The District should adopt separate budgets for each special revenue fund as required by law. The District should also ensure that budgets presented in the financial statements are those approved by the Board. Additionally, the District should consider purchasing the budget module for its accounting system and use the accounting system to control and monitor District expenditures. Finally, periodic budget-to-actual expenditure comparisons by fund should be provided to the Board.

Cash Controls and Administration

Finding No. 4: Cash Controls

District management is responsible for establishing effective controls to ensure appropriate custody, control, and safeguarding of assets. When applied to cash collections, the District should ensure that employees responsible for physical custody of cash (such as cashiers) do not also have responsibilities for accounting for cash (such as accountants). Similarly, when applied to cash disbursements, the District should ensure that employees responsible for physical custody of disbursement checks do not also have responsibilities for accounting for those disbursements. Alternatively, when these responsibilities cannot be separated, the District should establish appropriate monitoring responsibilities that serve as effective compensating controls.

Cash Collections. The District received cash collections for tax payments, land use fees, timber sales, and various permit fees, including water well permits, water use permits, and environmental resource permit fees. Our review disclosed that:

- The District did not have procedures in place to use prenumbered receipts, cash receipt journals, mail logs, or other means to document amounts collected by employees. Nor had it established procedures to reconcile collections to actual bank deposits and receipts recorded in the accounting records.
- Checks received were not restrictively endorsed at the time of collection.
- Collections were transferred between District personnel without the use of transfer documents to evidence the transfer of responsibility.
- Employees who collected permitting fees also accounted for permit applications, fee collections, and manually recorded transactions in the permitting system.
- Voided transactions and refunds were “netted” against permit fees collected rather than separately accounting for them in the District's accounting records. Additionally, voided transactions and refunds of collections were not approved by supervisory personnel.
- Multiple collections were recorded as one cash receipt in the District's accounting records. Our test of cash receipts disclosed that for 13 of the 28 cash receipts tested, the dates on which funds were collected was not documented in the District's records. Accordingly, District records, in these instances did not demonstrate that collections were deposited timely. In addition, collection dates were recorded for a portion of amounts collected on 2 of the 28 cash receipts included in our test; however, the collection dates ranged from 13 to 33 days prior to deposit.
- The Finance Officer deposited collections, recorded transactions in the accounting records, reconciled the depository and permitting fee bank accounts, had authority to open bank accounts in the District's name, and

had authority to withdraw or transfer moneys from the bank accounts. Additionally, the District did not require supervisory approval of these transactions initiated or prepared by this employee.

When the District fails to establish effective controls over cash receipting processes, there is an increased risk that collections could be misappropriated without timely detection.

Cash Disbursements. Our review of cash disbursement procedures disclosed that:

- The Accounts Payable/Payroll and Benefits Coordinator was responsible for processing invoices for payment, adding new vendors to the accounts payable system, recording the disbursements to the accounting records, printing checks, mailing checks to vendors, and maintaining custody of blank accounts payable checks and purchase orders. Additionally, this employee prepared the accounts payable bank account reconciliations.
- The Accounts Payable/Payroll and Benefits Coordinator was responsible for recording payroll data in the accounting records from source documents, posting changes in rates of pay, adding and removing employees to and from the payroll system, and preparing and processing payroll direct deposits. In addition, this employee prepared the payroll bank account reconciliations.

In these circumstances, the District had not established an appropriate separation of incompatible duties. Nor had the District established monitoring procedures, as a compensating control, to ensure that these employees appropriately recorded and accounted for all cash disbursement transactions. When one employee has responsibility over cash and the accounting records, and monitoring procedures have not been established, there is an increased risk that disbursements could be misappropriated without timely detection.

Recommendation: The District should, to the extent practical, separate duties so that one employee does not have control of all aspects of a transaction (i.e., both recording responsibility and custody of assets). Alternatively, the District should ensure that appropriate monitoring controls are implemented when it is not practical to separate incompatible duties.

Finding No. 5: Bank Account Agreements

Chapter 280 and Section 373.553, Florida Statutes, specify procedures that should be taken to secure all funds belonging to the District and to ensure that disbursements are proper and within budgetary limits. Pursuant to Section 373.553(1), Florida Statutes, the Board must designate a treasurer who is the custodian of all District funds and such funds must be disbursed upon the order of, or in the manner prescribed by, the Board by warrant or check signed by the treasurer or assistant treasurer and countersigned by the Board Chair or Vice Chair.

The District maintained three bank accounts at one bank and one bank account in another bank with cash balances in these banks totaling \$797,066 and \$37,035, respectively, at March 31, 2013. Although the District maintained a list of authorized signers for each account, and established the individuals authorized to sign checks and initiate transactions, our review of the District's bank account agreements disclosed the following:

- For three of the four District bank accounts, check signers were also authorized to open new accounts and make changes to existing accounts, and record transactions in the District's accounting records.
- The District did not have adequate procedures to update bank account agreements for employee terminations. Our review disclosed that as of April 7, 2013, the former Executive Director, former Director of Mission Support, and former Finance Director continued to be authorized signers on one bank account subsequent to their terminations. Termination dates for these former employees ranged from February 27, 2012, to February 28, 2013. In addition, as of March 22, 2013, the former Finance Director continued to be an authorized signer on two other bank accounts subsequent to his termination on February 28, 2013.

Because of the control weaknesses noted above, along with weaknesses noted in finding No. 4 related to separation of duties, there is an increased risk that unauthorized withdrawals or expenditures could be made without timely detection.

Recommendation: The District should revise its bank agreements to require an appropriate individual other than an authorized check signer to approve new accounts and changes to existing accounts, and timely amend bank account agreements for personnel changes.

Finding No. 6: Electronic Funds Transfers

Pursuant to Section 668.006, Florida Statutes, the District is required to implement control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. The District used electronic funds transfers (EFTs) from one bank for three of its four bank accounts for payroll, deferred compensation, retirement contribution, IRS tax and land closing payments, as well as transfers among District accounts. The District also made occasional wire transfers to vendors if no other method of payment was accepted. During the period October 2011 through February 2013, the District made EFTs totaling \$7 million.

The District had an agreement with the bank that provided for these services; however, our review of District records disclosed that the District could strengthen its controls over EFTs, as follows:

- The District had not established written policies and procedures regarding the authorization and processing of EFTs to demonstrate compliance with Section 668.006, Florida Statutes.
- The bank agreement authorized users to electronically initiate EFTs without the approval of another employee before the funds were transferred. The agreement also did not restrict the locations where District funds could be transferred or limit the amounts that could be transferred.
- The Finance Director had the capability to initiate wire transfers and record journal entries in the accounting system, allowing access to District assets and the accounting records for these assets.
- The Accounts Payable/Payroll and Benefits Coordinator had the capability to add employees, pay rates, and employee bank account information in the accounting system, and process the related electronic disbursements for payroll, without prior approval of another employee before the funds were transferred.
- Although the District's records indicated the individuals that approved EFTs and recorded EFTs in the accounting records, District records did not always evidence who initiated the EFTs.

Without written policies and procedures and effective controls governing EFT activities, there is an increased risk that unauthorized EFTs could occur and not be timely detected. While our tests did not disclose any EFTs that were made for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls.

Recommendation: The District should establish written policies and procedures for authorization and processing of EFTs pursuant to Section 668.006, Florida Statutes, including providing for an adequate separation of duties over access to the District's assets and the related accounting records, and documenting prior independent approval of EFTs. In addition, the District should revise its bank agreement to address the deficiencies noted above.

Finding No. 7: Interest Allocations

While not specifically required by law, numerous Attorney General opinions have affirmed that investment earnings on restricted funds are not separate revenue streams and should be accounted for and expended in accordance with the restrictions that apply to the principal balance. The District invested temporarily idle funds in pooled accounts with the Local Government Surplus Fund Investment Pool (Florida Prime) and the Florida Department of Financial Services’ Special Purpose Investment Account. However, District records did not evidence that interest earnings allocations were based on the respective fund’s ownership in the investment balance. Our review of the District’s procedures and balances reported as cash and investments on the District’s audited financial statements at September 30, 2012, disclosed that the District allocated interest earnings to the General Fund and Land Management and Acquisition Fund; however, interest earnings of at least \$116,360 allocated to the General Fund for the period October 2011 through February 2013 should have been allocated to special revenue funds.

By recording interest earnings in funds other than the funds to which the invested amounts relate, earnings may be inappropriately expended for purposes not specifically authorized by the source from which the funds were generated.

Recommendation: The District should enhance its procedures to ensure that interest earnings are properly calculated and allocated to the specific fund that produced the earnings.

Finding No. 8: Escrowed Funds

As part of our review of land acquisitions, we noted that the District entered into negotiations regarding an exchange of land with another entity that included the District placing funds in escrow with the District’s contracted attorney. On November 27, 2012, the District placed \$216,734 in a trust held by the District’s attorney in anticipation of the exchange of land. The District recorded the deposit of funds with the District’s attorney as an expenditure; however, according to generally accepted accounting principles (GAAP), this transaction should have been reported as a deposit held in trust (asset).

District records indicated that on February 15, 2013, the contract with the entity for the land exchange was cancelled as the nature of the land exchange was amended such that the District would not be providing cash in connection with the land exchange. As of May 15, 2013, or three months after the contract was canceled, the District had not requested or received the funds on deposit with the District’s attorney. Subsequent to our inquiry, on May 16, 2013, the District obtained and deposited the funds in the District’s accounts.

Failure to appropriately account for and record these types of transactions increases the risk that available District resources may not be timely identified.

Recommendation: The District should strengthen financial accounting and monitoring procedures to ensure that moneys deposited in escrow for future purchases are appropriately accounted for in the District’s records in accordance with GAAP, and to ensure the timely return of those funds if applicable.

Procurement of Goods and Services

Expenditures of public funds must be shown to be authorized by applicable law; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than private, purpose. The documentation of an expenditure in sufficient detail to establish the authorized public

purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds.

Finding No. 9: Purchasing Cards

The District provided purchasing cards (p-cards) to approved employees in an effort to efficiently and effectively process and expedite purchases of goods and services, and the District established written policies and procedures to provide guidelines on the proper use of these cards. During the period October 2011 through February 2013, District personnel used p-cards to purchase goods and services totaling \$129,669.

We reviewed 95 p-card transactions totaling \$23,892. Our review disclosed that the District needed to improve the design, implementation, and monitoring of District p-card policies and procedures, as follows:

- District p-card policies and procedures required department directors to review and approve p-card expenditures to ensure goods and services obtained were necessary and appropriate. However, these policies and procedures were silent regarding who must review and approve expenditures for department directors and above. For 7 purchases by department directors totaling \$755, District records did not evidence supervisory review or approval. In each instance, the p-card user also approved the purchase and the payment was processed without any further review by District personnel.
- District p-card policies and procedures required the p-card user to include the receipt and a description of the purchase, and clearly demonstrate that the purchase was for a valid public purpose. However, for 48 purchases totaling \$12,443, District records did not include detailed receipts or adequate explanations to document the public purpose or legal authority of the expenditures. Examples of missing documentation included items such as detailed conference agendas supporting hotel charges and authority or justification for the purchase of items such as employee work boots and a hat. Absent such information, it was not evident on what basis the District determined that purchases were appropriate charges to the District prior to payment. Subsequent to our inquiry, the District provided documentation to support 18 of these purchases totaling \$5,478.
- Five purchases totaling \$461 for the purchase of fuel and gift cards were prohibited purchases pursuant to the District's policies and procedures.
- For bus rental charges in June 2012 totaling \$3,258, the cardholder made two separate charges, one for \$1,000 on May 22, 2012, and one for \$1,250 on May 25, 2012, that exceeded the cardholder's \$999.99 single transaction limit.

In the absence of an adequate independent review and approval of p-card transactions, and detailed receipts and explanations as to the public purpose of p-card purchases, and compliance with District p-card policies and procedures, there is an increased risk that p-card purchases may be made that do not serve an authorized public purpose.

Recommendation: The District should strengthen its p-card policies and procedures to ensure that an adequate independent review and approval is documented for all p-card purchases, and that all p-card purchases are supported by receipts or other applicable documentation, and are for expenses and within transaction limits authorized by District policies and procedures.

Finding No. 10: Equestrian Park Expenditures

Section 373.139, Florida Statutes, declares it to be necessary for the public health and welfare that water and water-related resources be conserved and protected. The acquisition of real property for this objective constitutes a public purpose for which public funds may be expended. Section 373.1391, Florida Statutes, provides that lands titled to the water management districts' governing boards must be managed and maintained, to the extent practicable, in

such a way as to ensure a balance between public access, general public recreational purposes, and restoration and protection of their natural state and condition.

On July 26, 2006, the District paid \$6.5 million, plus closing costs of \$57,183, to purchase 2,485 acres for the purposes provided for under Section 373.139, Florida Statutes. Prior to the purchase, the owners of the property established a nonprofit corporation (Corporation) to manage an equestrian park on the property and a remainder charitable trust. The owners gave the Corporation a 54 percent interest and the remainder charitable trust a 46 percent interest in the property. As part of the purchase transaction, the District's Board agreed to hold and manage an endowment of \$3,487,021 for the benefit of the Corporation. The endowment was comprised of the net proceeds of the purchase price for the Corporation's interest in the property (54 percent). The Corporation's bylaws provided that the District's Board appoint the Corporation's Board of Directors and that a member of the District's Board serve as chair of the Corporation's Board of Directors.

From July 26, 2006, to September 26, 2012, the District expended \$3.6 million of District funds to operate and make improvements to the equestrian park. These expenditures included significant capital outlay items, such as construction of a visitor's center, bathhouse, manager's house, horse trails, and parking lots, and expense items such as legal fees, accounting fees, District employee salaries related to operating and maintaining the equestrian park, mowing, and utilities. The funds expended by the District were in addition to the funds the Corporation expended on operations from revenues generated by fees charged at the equestrian park and endowment fund interest earnings disbursed by the District.

In an effort to separate the District from further involvement in the operation of the equestrian park, on September 26, 2012, the District executed an agreement to establish a trust to hold and manage the endowment funds previously held by the District. In accordance with the trust agreement, the endowment funds were remitted by the District to the Corporation on September 27, 2012, in the amount of \$3,857,199, including principal and accrued interest. On November 15, 2012, the District also executed a management contract with the Corporation for management of the equestrian park effective November 15, 2012, through September 30, 2021. The agreement requires the Corporation to manage and maintain the equestrian park. By these actions, the District would no longer expend any public funds or District resources for the operation of the equestrian park; however, the District is still required to maintain casualty and fire insurance on the facilities as they retain ownership of the property.

Although the District has ceased most support for the equestrian park, its use of \$3.6 million of public funds to operate and make improvements to the equestrian park, and its performance of other activities to assist the Corporation, appear to exceed the "extent practicable" provisions stated in Section 373.139, Florida Statutes. While the initial purchase of these lands may have served a valid public purpose and was consistent with the District's statutorily defined responsibilities, it is not apparent how the subsequent expenditure of \$3.6 million of public funds to operate and maintain the park was consistent with those responsibilities.

Recommendation: The District should establish policies and procedures to ensure the District evaluates potential costs before entering into future land agreements to ensure that costs do not exceed the benefits derived and do not divert public funds from the District's core mission of protecting and conserving the State's water resources.

Payroll and Personnel

Finding No. 11: Annual Leave Payments

The District participates in the Florida Retirement System (FRS) and, accordingly, District personnel are entitled to participate in the Deferred Retirement Option Plan (DROP). Under DROP, eligible employees continue to work after they declare retirement for a period up to five years. Retirement benefits accruing to the employee are placed into an account that earns interest and the lump-sum amount accrued is available to the employee when the employee terminates employment from the FRS employer. Pursuant to Section 121.091(13)(c)2., Florida Statutes, each District employee who elects to participate in DROP may elect to receive a lump-sum payment for accrued annual leave in accordance with District policy upon beginning participation in DROP. The employee electing the lump-sum payment is not eligible to receive a second lump-sum payment upon termination, except to the extent the employee has earned additional annual leave which, combined with the original payment, does not exceed the maximum lump-sum payment allowed by the District's policy or rules.

The District's 1999 Policy Manual, as it related to terminal annual leave payouts for DROP participants, stated "An employee may elect to sell and receive a lump-sum payment for up to 240 hours of accrued annual leave either upon entering DROP, or at the termination of employment at the end of the DROP period. Or, the employee may elect to combine the two options as long as the total amount sold does not exceed the maximum 240 hours allowed for normal retirement or termination." The Board revised the Policy Manual effective October 1, 2012, to provide for terminal annual leave payments only in the event of the employee's death.

In our test of employee compensation, we noted five employees who participated in DROP and terminated their employment during the period October 2011 through February 2013. All five employees received lump-sum payments for accrued annual leave upon termination. However, four of the five employees had also received the maximum accrued annual leave payout allowed by District's Policy Manual upon entering DROP and, therefore, the annual payments at termination were contrary to law, as follows:

- Two employees terminating District employment received second lump-sum payments totaling \$23,792 on or before September 30, 2012. District personnel indicated that the District's Policy Manual in effect at that time permitted DROP participants to receive a second lump-sum payment of annual leave in excess of the maximum allowed for normal retirement or termination upon actual termination of employment with the District; however, District records did not evidence the Board's approval of such a change to the District's 1999 Policy Manual. Even if the Board had approved such a change to the Policy Manual, the change would have resulted in the Policy Manual being contrary to Section 121.091(13)(c)2., Florida Statutes.
- Two employees terminating District employment received second lump-sum payments totaling \$30,084 on or after October 1, 2012. These payments were contrary to District's Policy Manual as revised effective October 1, 2012, and were contrary to Section 121.091(13)(c)2., Florida Statutes.

Failure to ensure that terminal annual leave payments are in accordance with the Board-approved District Policy Manual and State law increases the risk that employees may receive terminal leave payments in excess of that allowed by State law.

Recommendation: The District should establish procedures to ensure that terminal annual leave payments do not exceed the maximums established by the Board-approved Policy Manual and State law.

Finding No. 12: Severance Pay

Section 215.425(1), Florida Statutes, provides 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 on or after July 1, 2011, pursuant to a new, renewed, or renegotiated employment agreement or the settlement of an employment dispute. During our test of compensation, we noted \$53,260 in administrative leave and benefit payments that appear to be extra compensation prohibited by Section 215.425, Florida Statutes, as follows:

- Six employees were offered Employee Separation Agreements (Agreements) that they voluntarily signed prior to September 17, 2012. As part of the agreements, the employees received 2.4 weeks of administrative leave and received District-paid health, dental, and vision insurance coverage until October 31, 2012, at a total cost of \$23,188.
- Board minutes dated February 27, 2012, disclosed that the Executive Director agreed to immediately resign with an effective separation date of May 1, 2012. In exchange, the Board agreed to place the Executive Director on administrative leave with full pay and benefits starting February 27, 2012; however, Board minutes did not cite the Board’s justification or legal authority for the payment of administrative leave. While on administrative leave from February 27, 2012, to May 1, 2012, the Executive Director received 10.4 weeks of compensation, and received District-paid health, dental, and vision insurance coverage, at a total cost of \$30,072.

District records did not evidence employment contracts between the District and these employees. In addition, while the Board approved Policy Manual stated that administrative leave may be authorized for listed purposes, such purposes did not include layoffs or resignations.

In response to our inquiries, the District provided a legal opinion from its General Counsel that indicated the Agreements constitute employment agreements as contemplated in Section 215.425(4)(a), 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. The General Counsel’s legal opinion also stated that the Agreements met the requirements of Section 215.425(4)(b), Florida Statutes, which permits severance pay of up to 6 weeks for the settlement of employment disputes. However, neither the Agreements nor District records evidenced the existence of employment disputes.

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

Capital Assets

Finding No. 13: Capital Asset Records

At September 30, 2012, the District reported capital assets totaling approximately \$217 million, net of accumulated depreciation. The timely and accurate maintenance of subsidiary property records to support capital asset costs is essential to establish the necessary accountability for these assets. As part of our testing, we noted that the District did not maintain detailed subsidiary records to support the value of reported capital assets for the following asset classes.

Asset Class	Balance - 9/30/2013
Land - Headquarters	\$ 37,685
Land - Water Resource Management	145,278,368
Capital Easements - Water Resource Management	63,907,979
Land Improvements - Water Resource Management	2,940,479
Total	\$ 212,164,511

The District updates capital asset categories by adjusting prior year control account balances in the general ledger for current year addition and deletion amounts for each asset type. When the District disposes of capital assets, it decreased the control account for the current value (i.e., sale price) of the asset rather than by the asset’s historical book value. As a result, the District’s procedures for recording disposals do not recognize a gain or loss on disposal of land, capital easements, or land improvements.

Due to the lack of subsidiary records and a process to regularly reconcile such records to the reported general ledger control accounts, the District has limited assurance that these capital asset balances are materially correct, and the District’s ability to properly account for and safeguard these capital assets is limited.

Recommendation: The District should establish and maintain complete subsidiary records for all capital asset classes, regularly reconcile subsidiary records to general ledger control accounts, and demonstrate that capital asset disposals are properly recorded and recognized in the District’s records.

Finding No. 14: Tangible Personal Property

Pursuant to Section 274.02(2), Florida Statutes, the State Chief Financial Officer has established 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, Florida Administrative Code (FAC), provides minimum standards and procedures necessary to ensure proper accountability and safeguarding of tangible personal property.

At September 30, 2012, the District reported tangible personal property totaling \$2,067,646. Our review of the District’s procedures and controls disclosed the following deficiencies related to tangible personal property:

- **Property Inventory.** DFS Rule 69I-73.006, FAC, requires a complete physical inventory of all tangible personal property annually and outlines specific information to be included on the inventory forms. District Policy 10.4.4 provides for a complete physical inventory to be conducted by District personnel and recorded on a printout of tangible personal property provided by the Accounting Coordinator. Our review of the 2011-12 fiscal year inventory printout, disclosed that employees did not note the status of property items (e.g. existence, location, etc.) and the present physical condition of property items, nor did they sign the printout attesting to the existence of the items. In addition, District records did not evidence that the inventory was reconciled to the property records upon inventory completion.
- **Recording of Property.** Our review of the District’s property records disclosed that content required by DFS Rules 69I-73.003(3) and 69I-73.005(2), FAC, was not recorded. Specifically, for all assets, the property records did not contain the method of acquisition and, for purchased items, the voucher and check or warrant number; or date the item was last physically inventoried and item condition on that date. In addition, for dispositions, the District’s property records did not contain the authority for disposition; manner of disposition; identity of the employee witnessing the disposition, if cannibalized, scrapped, or destroyed; notation identifying any related transactions (such as receipt for sale of the item, insurance recovery, trade-in);

or, for surplus property, reference to documentation evidencing that such property was disposed of in the manner prescribed by Sections 274.05 and 274.06, Florida Statutes.

- **Property Disposals.** DFS Rule 69I-73.005, FAC, requires removal of property items from the control account at the time of disposition. Our review of property disposals disclosed that 17 of the 80 items surplused during the period October 2011 through February 2013 had not been timely removed from the property records as of the time of our review in May 2013. Subsequent to our inquiry, the 17 items were removed from the property records, from 108 to 227 days after disposal of the property.

Failure to maintain proper accountability over tangible personal property increases the risk that loss, theft, or unauthorized use of tangible personal property may occur without timely detection.

Recommendation: The District should ensure that a complete physical inventory of all tangible personal property is taken annually, including all information required by DFS Rules, and the results are promptly reconciled to the District’s property records. The District should also ensure that tangible personal property records are complete and include all information necessary to properly identify property items. Further, the District should ensure that property disposals are recorded to the property records in a timely manner.

Motor Vehicles

Finding No. 15: Vehicle Usage

As of February 2013, the District owned 24 vehicles, including 7 that were in the motor pool and 17 that were informally assigned to Divisions and sub-assigned to Division employees. District Policy 24.1 requires employees who use District vehicles to record such use on a monthly *Vehicle Log Form*, including time of use, total mileage, fuel, purchases, odometer readings, driver’s name, destination, repair needs or unusual conditions, date, and signature.

For 6 vehicles, we selected the months of March 2012 and January 2013 to determine whether *Vehicle Log Forms* were properly completed for the selected months. Our review disclosed:

- District records did not evidence that *Vehicle Log Forms* were completed for 3 of the 12 months selected. For one of the 3 months, the *Vehicle Log Forms* applied to the Executive Director who was not required to complete a *Vehicle Log Form* per her employment contract; however, for the other 2 months, District records indicated there was vehicle usage requiring completion of a *Vehicle Log Form*.
- For the 9 *Vehicle Log Forms* that were completed, we noted one or more trips for which the description of the trip was not sufficient to determine public purpose.
- District policies did not require supervisory review of *Vehicle Log Forms* and 7 of the 9 *Vehicle Log Forms* we reviewed did not contain evidence of administrative or department director review and approval.
- District Policy 24.1 states “Employees with assigned vehicles must commute to and from District headquarters, or alternative duty station as defined by the District, in private vehicles. In cases where the work assignment on a given day makes it more practical to begin the day from the employee’s home rather than District headquarters, the employee’s department director may authorize the vehicle to be driven home.” The District required that employee requests to drive a District vehicle home overnight be documented in writing on a *Requested Authorization to Drive a District Vehicle Home Form*. Our review of *Vehicle Log Forms* disclosed 26 days in which vehicles were driven home overnight; however, only 3 of the days were supported by the required form.

Absent use or full completion of the required forms, including appropriate supervisory review, the District is limited in its ability to demonstrate that motor vehicles are used primarily for a public purpose and used only incidentally for the personal benefit of the employee using the vehicle.

Recommendation: The District should enhance its procedures to ensure that vehicle usage is documented in accordance with District policy using the required forms, and that the forms are reviewed for accuracy and completeness by supervisory personnel. In addition, the District should ensure that appropriate authorization forms are completed in all instances in which District employees are allowed to drive vehicles to and from their residences.

Finding No. 16: Vehicle Leases

In addition to the motor vehicles the District owns, the District also leased three vehicles. Two of the leased vehicles were provided for the exclusive use of the former Executive Director and former Assistant Executive Director, who used the vehicles on a 24-hour basis whereby they drove the vehicles home overnight. These former employees also used District fuel cards to purchase fuel for the vehicles. During the 2010-11 and 2011-12 fiscal years, the District expended \$13,403 and \$10,825, respectively, on these two vehicle leases. Although fuel cost records prior to March 2011 were not available, we determined that from March 2011 to May 2012, the District expended \$8,018 on fuel for these two leased vehicles.

Our review disclosed the following regarding the two vehicles leased for the former Executive Director and former Assistant Executive Director:

- District records did not evidence Board approval of the two vehicle leases. District policy required all contracts in excess of \$6,000 be approved by the Board, except in those instances declared an emergency or time sensitive by the Executive Director. District personnel provided correspondence indicating that the leases were approved by the former Executive Director in accordance with this policy; however, the correspondence provided did not evidence that an emergency was declared or a determination that the leases were of a time sensitive nature.
- As noted in finding No. 15, District Policy 24.1 provided that department directors may authorize employees to drive vehicles home overnight and such authorization must be documented in writing using the *Requested Authorization to Drive a District Vehicle Home Form*. However, District records did not evidence Board approval for the former Executive Director or the former Assistant Executive Director to drive their leased vehicles home overnight.
- United States Treasury Regulation 1.61-21(a)(3) provides that, with some exceptions, an employee's gross income include the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle (i.e., driving the vehicle to and from the employee's residence) is a fringe benefit that must be included in each employee's gross income as compensation for services, unless otherwise excluded (e.g., as in the case of a clearly marked police or fire vehicle). Our review disclosed that the value of personal use of the two leased vehicles was not included in the former Executive Director's and former Assistant Executive Director's gross compensation reported to the Internal Revenue Service.
- Section 32.0655(1), Florida Statutes, requires governmental entities to have a permanent license plate of a distinctive color "for any motor vehicle owned or exclusively operated by the state or by any county, municipality, or other governmental entity." However, both of the leased vehicles used by the former Executive Director and former Assistant Executive Director were tagged with a regular State of Florida license plate, which did not identify them as a District vehicle.

Subsequent to the former Executive Director's termination in May 2012, the leases for the two vehicles used by the former Executive Director and former Assistant Executive Director were canceled and the vehicles were returned to the vendor.

Absent Board approval for procuring these leases and assigning the vehicles on a 24-hour basis, District records did not demonstrate that assigning the leased vehicles on a 24-hour basis to the former Executive Director and former

Assistant Executive Director primarily served a public purpose. Additionally, when taxable benefits are not properly reported as compensation, the District may be subject to penalties imposed by the Internal Revenue Service.

Recommendation: The District should ensure that vehicle leases that exceed the contract threshold are Board-approved and clearly document that the related expenditure serves a valid public purpose. The District should also strengthen controls to ensure that the use of District vehicles on a 24-hour basis is approved and documented in accordance with Board policy. Additionally, the District should ensure that the taxable value of personal use of vehicles is reported to the Internal Revenue Service and contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles for the former Executive Director and former Assistant Executive Director. Finally, the District should ensure that the proper license plates are used for leased vehicles.

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 May 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 operational 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
Organizational Issues	Reviewed the duties and responsibilities administratively assigned to the District, and examined and reviewed documentation such as organization charts and minutes of governing board meetings.
Written Policies and Procedures	Determined whether the District had written policies and procedures in place for major District functions.
Budgetary Control	Obtained the District’s approved budget for the prior and current fiscal years and reviewed applicable policies and procedures for compliance with requirements established by law.
Fund Balance Classification	Reviewed resolutions committing fund balance for compliance with generally accepted accounting principles.
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. Obtained understanding of and assessed control policies and procedures relating to cash. Reviewed bank account reconciliations for completeness and supervisory approval.
Investments	Reviewed District policies governing investments to determine compliance with applicable laws, rules, regulations, bond resolutions, and other guidelines. Also, reviewed procedures for investing surplus funds.
Capital Assets	Compared subsidiary ledgers with control accounts, physically inspected tangible personal property, and reviewed procedures for disposal of surplus property.
Revenue and Cash Receipts	Reviewed policies and procedures for assessing and collecting permit fees, taxes, and other revenue sources to determine compliance with applicable provisions of law. Also, tested the accuracy of amounts collected and the timeliness of cash receipts deposited in the bank.
Payroll and Personnel	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 disbursements to determine whether expenditures were made in accordance with applicable laws, rules, regulations, contracts, grant agreements, District policies and procedures, and other guidelines.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Insurance	Reviewed methods used for acquiring commercial coverage to determine whether the basis for selecting the carrier was documented in the District's records and conformed to good business practice.
Wireless Communication Devices	Reviewed District policies and procedures to determine whether the District limited the use of, and documented the level of service for, wireless communication devices.
Motor Vehicle Assignment and Use	Determined whether 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.

EXHIBIT B
MANAGEMENT'S RESPONSE



**SUWANNEE
RIVER
WATER
MANAGEMENT
DISTRICT**

March 5, 2014

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

DDN QUINCEY, JR.
Chairman
Chiefland, Florida

ALPHONAS ALEXANDER
Vice Chairman
Madison, Florida

RAY CURTIS
Secretary / Treasurer
Perry, Florida

KEVIN BROWN
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GEORGE COLE
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VIRGINIA H. JOHNS
Alachua, Florida

GARY F. JONES
Old Town, Florida

VIRGINIA SANCHEZ
Old Town, Florida

GUY N. WILLIAMS
Lake City, Florida

ANN B. SHORTELE, Ph.D.
Executive Director
Gainesville, Florida

Dear Mr. Martin:

Enclosed please find the Suwannee River Water Management District's (District's) responses to the preliminary and tentative audit findings and recommendations received on February 5, 2014. The District is dedicated to making sure that the taxpayer's investment in our mission is operationally implemented in an effective, efficient and transparent manner.

The District appreciates your Lake City staff for their time, efforts, guidance, and professionalism.

If you have any questions, please contact me at 386.362.1001 or via e-mail at ABS@srwmd.org

Sincerely,

Ann B. Shortelle, Ph.D.

/SSA

cc: SRWMD Governing Board



Water for Nature, Water for People

9225 CR 49 • LIVE OAK, FLORIDA 32060 • TELEPHONE 386/362-1001 • 800/226-1066 (FL) • FAX 386/362-1056
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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

ORGANIZATION AND GENERAL MANAGEMENT CONTROLS

Finding No. 1: District records did not evidence that the inspector general duties designated to an employee, and then to an accounting firm, were consistent with those required by law. In addition, the District did not use a competitive selection process to acquire inspector general services from the accounting firm.

Recommendation

The District should perform a formal analysis to determine whether the inspector general duties should be conducted by an employee or outsourced. If the analysis determines outsourcing is in the District's best interest, the District should consider using a competitive selection process for the acquisition of inspector general services. In addition, the District should ensure that inspector general duties and responsibilities are performed in accordance with Section 20.055, Florida Statutes.

SRWMD RESPONSE

The District previously determined that due to the fact that the inspector general position is required to directly report to the Board, it was not financially feasible for those duties to be performed by an employee. The District will continue to adhere to Subsection 373.079(4)(b), Florida Statutes and Section 20.055, Florida Statutes in selecting inspector general services.

Finding No. 2: The District's record retention policy was not consistent with the Florida Department of State's record retention requirements.

Recommendation

The District should establish procedures to ensure all records, including e-mails, are retained for the minimum timeframes in accordance with Section 119.01, Florida Statutes, and the GS1-SL.

SRWMD RESPONSE

The District has always met the record retention requirements regarding paper documents. Effective August 2013, the Governing Board approved a revised Information Technology policy that corrects the retention requirements for emails.

Finding No. 3: The District needed to enhance its procedures for ensuring that expenditures are limited to budgeted amounts.

Recommendation

The District should adopt separate budgets for each special revenue fund as required by law. The District should also ensure that budgets presented in the financial statements are those approved by the Board. Additionally, the District should consider purchasing the budget module for its accounting system and use the accounting system to control and monitor District expenditures. Finally, periodic budget-to-actual expenditure comparisons by fund should be provided to the Board.

SRWMD RESPONSE

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Effective October 2013, the District initiated the use of a budget module for the financial accounting system. Effective April 2014, periodic reports will be prepared for both management and the Governing Board that will reflect budget to actual expenditure comparisons by fund. Beginning with Fiscal Year 2014/2015, the District will adopt a budget that will include general and each special revenue fund rather than on the present combined basis.

CASH CONTROLS AND ADMINISTRATION

Finding No. 4: The District had not implemented adequate separation of duties for the cash collections and revenues, accounts payable, and payroll and personnel functions.

Recommendation

The District should, to the extent practical, separate duties so that one employee does not have control of all aspects of a transaction (i.e., both recording responsibility and custody of assets). Alternatively, the District should ensure that appropriate monitoring controls are implemented when it is not practical to separate incompatible duties.

SRWMD RESPONSE

The Governing Board approved the Finance and Accounting Policy in August 2013 which was updated to establish effective cash controls to ensure appropriate custody, control and safeguarding of financial assets. The District will continue to monitor these processes and evaluate information regarding these and other internal controls from Inspector General and financial audit reports.

Finding No. 5: The District's banking agreements did not properly assign authority to adequately protect public funds nor were they updated timely for personnel changes.

Recommendation

The District should revise its bank agreements to require an appropriate individual other than an authorized check signer to approve new accounts and changes to existing accounts, and timely amend bank account agreements for personnel changes.

SRWMD RESPONSE

Consistent with the updated Finance and Accounting Policy adopted by the Governing Board in August 2013, banking agreements have been appropriately revised to remove all individual permissions to open new accounts or make changes to existing bank accounts as provided in Section 373.553(1), Florida Statutes.

Finding No. 6: The District needed to enhance its controls over electronic funds transfers.

Recommendation

The District should establish written policies and procedures for authorization and processing of EFTs pursuant to Section 668.006, Florida Statutes, including providing for an adequate separation of duties over access to the District's assets and the related accounting records, and documenting prior independent approval of EFTs. In addition, the District should revise its bank agreement to address the deficiencies noted above.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

SRWMD RESPONSE

The updated Finance and Accounting Policy adopted by the Governing Board in August 2013 states EFT files and wire transfers require the approval of the Finance Officer prior to processing to ensure the adequate separation of duties and in compliance with Section 668.006, Florida Statutes.

Finding No. 7: Interest earnings on pooled accounts were not properly allocated to the fund that produced the earnings.

Recommendation

The District should enhance its procedures to ensure that interest earnings are properly calculated and allocated to the specific fund that produced the earnings.

SRWMD RESPONSE

The updated Finance and Accounting Policy approved by the Governing Board in August 2013 requires allocation of interest earnings by fund.

Finding No. 8: The District did not properly account for a deposit held in escrow for a land exchange transaction and, consequently, did not ensure the timely return of the deposit when the transaction was canceled.

Recommendation

The District should strengthen financial accounting and monitoring procedures to ensure that moneys deposited in escrow for future purchases are appropriately accounted for in the District's records in accordance with GAAP, and to ensure the timely return of those funds if applicable.

SRWMD RESPONSE

Effective February 2014, procedural controls have been implemented in accordance with GAAP.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 9: Policies and procedures for purchasing cards needed to be enhanced to ensure that purchases were in accordance with District policies and procedures and served an authorized public purpose.

Recommendation

The District should strengthen its p-card policies and procedures to ensure that an adequate independent review and approval is documented for all p-card purchases, and that all p-card purchases are supported by receipts or other applicable documentation, and are for expenses and within transaction limits authorized by District policies and procedures.

SRWMD RESPONSE

The District Governing Board approved the District's updated Procurement Policy in August 2013 that strengthened the procedure for use, documentation and monitoring of purchasing cards.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 10: The District needed to establish policies and procedures to ensure that land acquisition agreements are consistent with the District's statutorily defined responsibilities to protect and conserve the State's water resources.

Recommendation

The District should establish policies and procedures to ensure the District evaluates potential costs before entering into future land agreements to ensure that costs do not exceed the benefits derived and do not divert public funds from the District's core mission of protecting and conserving the State's water resources.

SRWMD RESPONSE

In accordance with State law the District's acquisition of lands is guided by the Florida Forever Work Plan (Plan), which is amended and approved by the Governing Board on an annual basis. The Plan establishes four major water resource objectives to consider in the acquisition of lands. Effective February 2014, the District revised its land acquisition procedure to include an evaluation to ensure that potential costs do not exceed the benefits derived.

PAYROLL AND PERSONNEL

Finding No. 11: The District made payments for accumulated unused annual leave to terminated employees that were not in compliance with *Florida Statutes*.

Recommendation

The District should establish procedures to ensure that terminal annual leave payments do not exceed the maximums established by the Board-approved Policy Manual and State law.

SRWMD RESPONSE

The District's policy has been clarified to ensure that employees will not receive lump sum annual leave payments in excess of the maximum total allowed by Governing Board policy and Florida Statutes. The clarified policy was approved by the Governing Board in June 2013.

Finding No. 12: The District provided enhanced separation benefits totaling \$53,260 to several former employees that appeared to be contrary to Section 215.425, *Florida Statutes*.

Recommendation

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

SRWMD RESPONSE

The District will continue to comply with Section 215.425, Florida Statutes.

CAPITAL ASSETS

Finding No. 13: The District did not maintain subsidiary records for land, land improvements, and easements totaling \$212,164,511.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Recommendation

The District should establish and maintain complete subsidiary records for all capital asset classes, regularly reconcile subsidiary records to general ledger control accounts, and demonstrate that capital asset disposals are properly recorded and recognized in the District's records.

SRWMD RESPONSE

The District Governing Board approved a revised Finance and Accounting Policy in August 2013 that includes a requirement to maintain a subsidiary system to account for the fixed assets, including lands and associated improvements. In conjunction with its annual financial audit, District staff has developed a subsidiary ledger to reflect land assets as of September 30, 2013. District staff will regularly reconcile subsidiary records to general ledger control accounts and assure that capital asset disposals are properly recorded and recognized in the District's records.

Finding No. 14: The District needed to enhance its controls over tangible personal property.

Recommendation

The District should ensure that a complete physical inventory of all tangible personal property is taken annually, including all information required by DFS Rules, and the results are promptly reconciled to the District's property records. The District should also ensure that tangible personal property records are complete and include all information necessary to properly identify property items. Further, the District should ensure that property disposals are recorded to the property records in a timely manner.

SRWMD RESPONSE

The updated Finance and Accounting Policy adopted by the Governing Board in August 2013 requires staff to conduct annual tangible property audits, ensure the inventory is documented (including location and condition of property), and proper disposal is timely documented. The results will be reconciled with the subsidiary property records and general ledger control accounts upon completion of the annual audit.

MOTOR VEHICLES

Finding No. 15: The District needed to strengthen controls over the use of District-owned vehicles.

Recommendation

The District should enhance its procedures to ensure that vehicle usage is documented in accordance with District policy using the required forms, and that the forms are reviewed for accuracy and completeness by supervisory personnel. In addition, the District should ensure that appropriate authorization forms are completed in all instances in which District employees are allowed to drive vehicles to and from their residences.

SRWMD RESPONSE

Effective September 2013, the District enhanced its procedure to ensure that vehicle usage is documented in accordance with District policy using the required forms, and that the forms are reviewed for accuracy and completeness by supervisory personnel.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 16: The District did not document the public purpose and benefit for two leased vehicles.

Recommendation

The District should ensure that vehicle leases that exceed the contract threshold are Board-approved and clearly document that the related expenditure serves a valid public purpose. The District should also strengthen controls to ensure that the use of District vehicles on a 24-hour basis is approved and documented in accordance with Board policy. Additionally, the District should ensure that the taxable value of personal use of vehicles is reported to the Internal Revenue Service and contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles for the former Executive Director and former Assistant Executive Director. Finally, the District should ensure that the proper license plates are used for leased vehicles.

SRWMD RESPONSE

The District ceased to provide leased vehicles as of April 2012 for employee use on a 24 hour basis. The former Executive Director and Assistant Executive Director who participated in the 24 hour vehicle usage have been provided the lease value of the vehicles for each calendar year of use and have been advised that this information be used to complete or amend their personal income tax returns as necessary to comply with applicable IRS regulations.