

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-208
May 2018

**SOUTH FLORIDA
WATER MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA
Auditor General

Board Members and Executive Director

During the period October 2015 through December 2016, Peter Antonacci served as Executive Director and the following individuals served as South Florida Water Management District Board Members:

Daniel T. O'Keefe, Chairman
Kevin P. Powers, Vice Chairman
Sam C. Accursio
Rick Barber ^a
Anne "Sandy" Batchelor through 8-25-16
Federico E. Fernandez from 8-26-16
Clarke Harlow
Mitch Hutchcraft
James "Jim" Moran
Melanie Peterson

^a Board member also served as Big Cypress Basin Board Chair.

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

Please address inquiries regarding this report to Michael J. Gomez, CPA, Audit Manager, by e-mail at mikegomez@aud.state.fl.us or by telephone at (850) 412-2881.

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SOUTH FLORIDA WATER MANAGEMENT DISTRICT

SUMMARY

This operational audit of the South Florida Water Management District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2014-091. Our operational audit disclosed the following:

Finding 1: District bank account reconciliation documentation did not always demonstrate timely preparation and supervisory review and approval. A similar finding was noted in our report No. 2014-091.

Finding 2: Controls over cash collections continue to need improvement.

Finding 3: The District continues to lack policies and procedures that ensure verification of public deposit information and timely submission of required reports to the State Chief Financial Officer.

Finding 4: District records did not always document the basis for merit bonus payments during the 2016 calendar year.

Finding 5: As similarly noted in our report No. 2014-091, the District did not always comply with State records retention requirements.

Finding 6: Monitoring procedures of procurement card monthly purchasing limits need improvement.

BACKGROUND

Established in 1972, the South Florida Water Management District (District) protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the 16 counties served by the District. The District is one of five water management districts created under the Water Resources Act of 1972¹ 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 the nine-member board, which consists of representatives from specific geographic areas within the 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. Additionally, the District encompasses two major watershed basins, the Okeechobee Basin and the Big Cypress Basin. The Big Cypress Basin also has a Basin Board, with appointed members setting policy. One District Board member also serves as the Big Cypress Basin Board Chair.

This operational audit of the District focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2014-091.

¹ Chapter 373, Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding 1: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis by someone independent of the cash recording function and evidence timely supervisory review and approval. 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 December 2016, the balances of the District's 12 cash and investment bank accounts totaled \$656.6 million.

District policies² require cash and investment control accounts to be reconciled within 30 calendar days upon receipt of the respective cash and investment account (bank account) statements. According to District personnel, bank statements are available online on the first business day after the statement close date. However, neither District policies nor procedures require that bank account reconciliations be signed and dated by the preparer to evidence timely preparation or by a supervisor to evidence timely review and approval.

To determine whether District bank account reconciliations were performed on a timely, routine basis by someone independent of the recording of cash transactions and evidenced timely supervisory review and approval, we examined documentation for 51 bank account reconciliations from the population of 120 reconciliations, including monthly and quarterly reconciliations during the period October 2015 through December 2016. Our examination of the bank account reconciliation documentation disclosed that the documentation evidenced independent preparation but did not always demonstrate timely preparation and supervisory review and approval. Specifically, documentation for:

- 28 (55 percent) of the bank account reconciliations showed reconciliation dates that were 33 to 107 days after the bank statement dates and 3 to 77 days, or an average of 51 days, beyond the 30-day time frame established by District policies.
- 2 (4 percent) of the bank account reconciliations did not demonstrate the reconciliation dates and, therefore, did not evidence timely preparation.
- 19 (37 percent) of the bank account reconciliations lacked evidence of supervisory review and approval. These 19 reconciliations include 18 of the 30 bank reconciliations that did not demonstrate timely preparation and 1 other reconciliation.

In response to our inquiry, District personnel indicated that accounts with low transaction volume were only reconciled quarterly and other reconciliation delays were due to employee turnover and reassignment of reconciliation responsibilities to employees who had additional regular duties. Also, because policies did not require supervisory review and approval of reconciliations, the reconciliations did not always document that approval. Bank account reconciliations that are not timely prepared and lack timely supervisory review and approval increase the risk that errors or fraud could occur without prompt detection and resolution. A similar finding was noted in our report No. 2014-091.

² District Policy Section 110-125.(b) *Accounting and Budget Requirements for District Banking*.

Recommendation: District management should ensure that bank account balances are timely reconciled to the general ledger balances as required by District policies. Additionally, District policies should be revised to require that documentation for all bank account reconciliations be signed and dated by the preparer and evidence timely supervisory review and approval.

Finding 2: Cash Collections

Effective controls over cash collections require that records document the date of collections, the amounts collected, the identity of the employees who receive collections, and the transfer of collections between employees to establish responsibility should a loss of collections occur. Such controls should also ensure that collections are timely deposited and that records are maintained to evidence the timeliness of deposits. During the period October 2015 through December 2016, the District made 306 deposits totaling \$687.4 million for permit, well contractor license, and inspection fees, and for amounts collected for other activities such as surplus property sales and real estate leases.

The Accounting Division Cashier is responsible for collection and deposit of fees and other revenues, including those received in person and through the mail at the District Headquarters in West Palm Beach and the service centers located in Ft. Myers, Naples, Okeechobee, and Orlando. District procedures³ require that collections received at the District Headquarters be delivered to the Cashier for deposit within 24 hours and collections received at decentralized locations (service centers and non-Headquarter locations) be delivered to the Cashier for deposit as soon as possible, but no later than 2 working days after receipt. District policies⁴ required that daily cash collections totaling \$125,000 or more be deposited in the bank within 24 hours after receipt but did not specify the time frame for depositing total daily receipts less than \$125,000. District policies and procedures also did not require documented identification of who received collections or the subsequent transfer of collections between employees.

To determine the effectiveness of District controls over collections and related deposits, we examined District records supporting 20 deposits, including 80 receipts totaling \$75.9 million and 30 permit application fees totaling \$80,810. Our examination disclosed that:

- 36 of the 80 receipts totaling \$937,546 did not identify the employee who received the collections and collections were transferred between employees without documentation to establish responsibility for the transfers. In addition, of the 36 receipts:
 - 10 receipts totaling \$622,525 were not deposited until 4 to 15 days after the dates of the initial collections. Two of the 10 receipts totaled \$600,000, but District records did not evidence that the collections were deposited by the Cashier within 24 hours of receipt as required by District policy.
 - 11 receipts totaling \$226,190 did not identify the collection dates. Without such, District records did not demonstrate that the collections were timely deposited.
- 7 permit application fees totaling \$12,950, received at the District Headquarters, were transferred to the Cashier 3 to 7 working days after receipt, contrary to the 24-hour time frame specified in District procedures.

³ District Procedure Section 210-173 - *Statements of Procedure*.

⁴ District Policy Section 110-125 - *Accounting and Budget Requirements for District Banking*.

In response to our inquiries, District personnel explained that some collections transfer and deposit delays were attributed to employee turnover and higher priorities for fiscal year-end closeout procedures and timely posting of tax receipts. Notwithstanding these explanations, the untimely deposit of collections increases the risk of loss or theft of collections. In addition, without identification of who received the initial and transferred collections, the District may be limited in its ability to effectively fix responsibility should a loss of collections occur. A similar finding was noted in our report No. 2014-091.

Recommendation: The District should ensure that documentation is maintained to identify employees who receive collections, to record the transfer of collections between employees, and to demonstrate that collections are timely deposited.

Finding 3: Public Deposit Accounts

Pursuant to State law,⁵ 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 the Public Deposits Program,⁶ State law⁷ requires each public depositor to execute a form prescribed by the CFO (Public Deposit Identification and Acknowledgement Form) 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 to maintain the current Public Deposit Identification and Acknowledgement Form as a valuable record.

Additionally, State law⁸ requires each public depositor to confirm annually that public deposit information as of September 30 has been provided by each qualified public depository and agrees with public depositor records. Information to be confirmed includes the Federal employer identification number of the qualified public depositor on the deposit account records, name on the deposit account record, account number, account type, and actual account balance on deposit. State law⁹ also requires each public depositor to submit, not later than November 30, an annual report to the CFO in a prescribed format. The annual report to the CFO is a signed declaration that confirms the verification of the public deposit information and possession of a current Public Deposit Identification and Acknowledgment Form from each public deposit account.

According to District records as of September 30, 2015, and 2016, the District had five bank accounts with combined bank account balances totaling \$152.6 million and \$164.1 million, respectively, that were subject to public depositor reporting. However, the District had not established policies and procedures for the designation of an employee responsible for preparing and submitting the required annual report. In addition, procedures had not been established to require supervisory personnel to document verification that the information in the report was accurate, that the report was timely submitted to the CFO, that a current Public Deposit Identification and Acknowledgement Form was maintained for each

⁵ Chapter 280, Florida Statutes.

⁶ Section 280.02(25), Florida Statutes, defines the Public Deposits Program as the Florida Security for Public Deposits Act contained in Chapter 280, Florida Statutes, and any rule adopted under Chapter 280, Florida Statutes.

⁷ Section 280.17(2), Florida Statutes.

⁸ Section 280.17(5), Florida Statutes.

⁹ Section 280.17(6), Florida Statutes.

public deposit account, or that confirmations of public deposit information from the District's local depositories were maintained.

Consequently, District records did not evidence that the District maintained a Public Deposit Identification and Acknowledgement Form for each public deposit account or confirmations of public deposit information from the District's local depositories as of September 30, 2015, and 2016. In addition, although the District filed the required annual report with the CFO by November 30, 2015, our examination of District records indicated that, because of an oversight, the November 30, 2016, annual report was submitted on February 28, 2017, 90 days late. Also, while the annual reports required to be filed with the CFO had been prepared, signed, and submitted, District records did not evidence that supervisory personnel verified and ensured the District's compliance with the State law public deposit requirements.

If a public depositor does not comply with State law by annually filing the required report of each public deposit account, the protection from loss provided by the State's Public Deposits Program is not effective as to each public deposit account. A similar finding was noted in our report No. 2014-091.

Recommendation: The District should establish policies and procedures designating to an employee responsibility for timely submitting the required annual report of public deposits to the CFO. Additionally, District procedures should be established to require supervisory personnel to verify and ensure compliance with the State law public deposit requirements.

Finding 4: Merit Bonus Awards

State law¹⁰ provides that any policy, ordinance, rule, or resolution designed to implement a bonus scheme must, for example, base the award of a bonus on work performance and describe the performance standards and evaluation process by which a bonus will be awarded. In January 2016, the Board adopted a resolution¹¹ creating a merit bonus policy and directed District personnel to include in District policies the merit bonus policy set forth in Exhibit A to the resolution. The merit bonus resolution provided that merit bonuses would be based on three performance dimensions: an employee performance evaluation, management observation, and other knowledge of the employee's performance and conduct. The resolution also provided that an overall numerical score would be developed for these performance dimensions and the evaluation period for any merit bonus would be from October 1 through September 30 of each fiscal year, except in the first short year of implementation. For the first short year of implementation, the merit bonus resolution provided for two evaluation periods: January 15 through April 15, 2016, and January 15 through September 30, 2016.

According to District personnel, the Administrative Services Division, Human Resources Bureau (HR Bureau) personnel prepared a listing of employees eligible for a merit bonus award and sent the listing to the respective divisions. Division supervisors identified and documented initial employee merit bonus awards and submitted the information to the bureau chiefs and division directors. Bureau chiefs and division directors reviewed and adjusted the initial employee merit bonus awards provided by the division supervisors and submitted the adjusted award recommendations to the HR Bureau. HR Bureau personnel compiled and submitted a listing of the recommendations to the Executive Team, composed

¹⁰ Section 215.425(3), Florida Statutes.

¹¹ District Resolution No. 2016-0112.

of the Executive Director, General Counsel, and the division directors for further consideration. The Executive Team considered the employee award recommendations, made adjustments, approved the final awards, and sent the final approved awards to the HR Bureau. HR Bureau personnel provided the approved employee merit bonus awards to the Payroll Services Section to issue payment for the awards.

While the merit bonus resolution provides that merit bonus amounts would be calculated based on employee documented performance during the evaluation period, neither the merit bonus resolution nor other records set the specific criteria for division supervisor initial award determinations or bureau chief and division director adjustments. In addition, District records did not specify the basis for Executive Team adjustments to the award recommendations.

During the period October 2015 through December 2016, the District awarded merit bonuses in amounts ranging from \$1,200 to \$4,800 (average of \$2,980) and totaling \$2.5 million to 847 employees for the first evaluation period and in amounts ranging from \$1,000 to \$3,500 (average of \$2,102) and totaling \$1.8 million to 852 employees for the second evaluation period. Our assessment of the District's merit bonus award process disclosed that:

- Contrary to the merit bonus resolution, the District had not developed an overall numerical score for the three performance dimensions specified in the Board-approved merit bonus resolution. District policies provided for bonus awards based solely on the numerical score of the employee performance evaluation without consideration of the other two performance dimensions of "management observation" and "other knowledge of the employee's performance and conduct." Although we requested, District personnel could not provide explanations of how to measure these two dimensions or why the information in District policies differed from the Board-approved merit bonus resolution. In response to our inquiry, District personnel indicated that the performance evaluation score was the only dimension assigned a numerical value and the value or weight placed on the other two dimensions could result in an employee with a lower numerical performance evaluation score receiving a greater share of the bonus.

Notwithstanding this response, absent the development of an overall numerical score that collectively considers all three performance dimensions for the merit bonus awards pursuant to the merit bonus resolution and documented guidelines for how to measure the dimensions and consistently apply consideration of the dimensions to all employees, there was an increased risk that the bonuses were not awarded based on all three performance dimensions set forth in the Board resolution.

- Although we requested, District records were not provided to evidence division supervisor initial employee merit bonus award determinations, bureau chief and division director adjustments, or Executive Team adjustments. According to the District Administrative Services Division Director, individual supervisors may have rated their employees more liberally or conservatively since they rated their employees within the context of their work unit rather than within the context of the District as a whole. Therefore, the overall review by the Executive Team provided a Districtwide perspective to normalize biases in individual performance evaluations and ensure that all three performance dimensions were considered for merit bonuses consistent with the spirit and intent of the merit bonus resolution. In response to our inquiry, District personnel indicated that the Executive Team considered all three performance dimensions in determining the overall distribution of bonus awards but did not document adjustments or the basis for such adjustments. Notwithstanding this response, documented merit bonus awards and adjustments, along with explanations for the awards and adjustments, would provide assurances that bonus criteria was consistently applied in accordance with the resolution and Board intent.
- District records did not document a numerical score for 8 employees paid a merit bonus as:

- 6 employees who were awarded bonuses ranging from \$3,000 to \$4,800 for the first evaluation period and totaling \$24,000 were not assigned numerical scores of record. In response to our inquiries, District personnel responded that 5 of the 6 employees' scores were added subsequent to the due date and included in the Executive Team's evaluation. However, although we requested, District records were not provided to evidence the 5 employees' scores. The other employee reported directly to the Executive Director and, according to District personnel, the Executive Director had the authority to evaluate his staff at his discretion without reference to a formalized score. However, the merit bonus resolution does not provide this authority and, although we requested, no other records were provided to evidence this authority.
- 2 employees who were awarded bonuses of \$3,000 and \$3,500, respectively, for the second evaluation period were not assigned numerical scores of record. One of these employees was also awarded a mid-year bonus absent an assigned numerical score of record. In response to our inquiries, District personnel indicated that both employees reported directly to the Executive Director and, therefore, no scores were documented.

Absent documented numerical scores to establish the basis for the merit bonuses awarded to the 8 employees, District records did not demonstrate how the awards were based on the three performance dimensions established by the Board resolution.

Recommendation: The Board should take action to clarify how the three performance dimensions set forth in the Board-approved merit bonus resolution should factor into the merit bonus award calculations. To support the basis upon which merit bonus awards are made, the District should develop an overall numerical score for the three performance dimensions as required by the Board resolution. In addition, the District should enhance procedures to document:

- **Guidelines for measuring the three performance dimensions and consistently applying consideration of the dimensions to all employees.**
- **Division supervisor initial employee merit bonus award determinations, bureau chief and division director adjustments, and Executive Team adjustments, along with explanations for the determinations and adjustments.**

Finding 5: Public Records Retention

State law¹² requires the District to maintain public records in accordance with the records retention schedule¹³ established by the Florida Department of State, Division of Library and Information Services. For example, according to the schedule, direct deposit authorization forms are required to be retained for 5 fiscal years after termination of authorization. Failure to maintain records in accordance with State law could result in District officials being subjected to specified penalties.¹⁴

As part of our audit, we requested for examination the direct deposit authorization forms for 40 selected employees from the 1,359 employees compensated during the period October 2015 through December 2016. However, the forms were not provided for 13 employees. In response to our inquiry, District personnel indicated that they were unsure why these forms were unavailable and that the forms had been filed separately from the personnel files since the 2009 calendar year.

¹² Section 119.021, Florida Statutes.

¹³ State of Florida General Records Schedule GS1-SL for State and Local Government Agencies, Item # 264.

¹⁴ Section 119.10, Florida Statutes.

Absent employee-completed direct deposit authorization forms, District records do not evidence employee instructions for handling salary payments. A similar finding was noted in our report No. 2014-091.

Recommendation: The District should ensure that direct deposit authorization forms are maintained as required by State law.

Finding 6: Procurement Cards

The District administers a procurement card (P-card) program, which gives employees the convenience of purchasing items from selected merchants without using the standard purchase order process and expedites low dollar purchases of goods and services at a lower cost to the District. Purchases made with P-cards are subject to the same rules and regulations that apply to other District purchases and are also subject to P-card requirements established in the District *Procurement Card Program User's Manual (P-Card Manual)*.

The *P-Card Manual* requires that the purchasing limits for each cardholder be determined by specified District directors or bureau chiefs. While the maximum monthly purchasing limit for cardholders is \$15,000, the *P-Card Manual* does not require documented, periodic evaluations of P-card monthly purchasing limits and related cardholder use.

During the period October 2015 through December 2016, the District used 402 to 539 P-cards to make 25,056 purchases totaling \$4.2 million and, as of December 2016, 402 P-cards were in use. To determine whether the District established an appropriate purchasing limit for each P-card during this period, we compared cardholder use to P-card monthly purchasing limits for all cardholders and noted that:

- 20 P-cards with monthly purchasing limits of \$1,500 to \$15,000 were not used.
- 192 P-cards with monthly purchasing limits of \$1,500 to \$15,000 had monthly charges that were less than 50 percent of the respective P-card's monthly purchasing limit.

In response to our inquiries, District personnel indicated that formal periodic evaluations of P-card limits and related use are unnecessary because other controls over P-cards reduce the risk associated with larger than necessary purchasing limits to acceptable levels. Notwithstanding this response, documented, periodic evaluations of P-card purchasing limits and related use and appropriate actions based on such evaluations would provide additional assurance that the risks related to P-card errors, fraud, and abuse were effectively addressed. A similar finding was noted in our report No. 2014-091.

Recommendation: The District should revise the *P-Card Manual* to require and ensure that documented, periodic evaluations of P-card monthly purchasing limits and related use are performed and take appropriate actions based on the evaluations. Such actions should include the cancellation of P-cards that are not routinely used and the reduction of P-card monthly purchasing limits commensurate with necessary use.

PRIOR AUDIT FOLLOW-UP

Except as discussed in Findings 1, 2, 3, 5, and 6, the District had taken corrective actions for the findings included in our report No.2014-091.

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. State law¹⁵ requires us to conduct at least every 3 years operational audits of the accounts and records of water management districts.

We conducted this operational audit from February 2017 through May 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objectives of this operational audit were to:

- 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.
- Determine whether management had taken corrective action for, or was in the process of correcting, findings included in our report No. 2014-091.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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.

As described in more detail below, 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 the 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

¹⁵ Section 11.45(2)(f), Florida Statutes.

conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period October 2015 to December 2016, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically 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.

In conducting our audit, we:

- Examined District records such as organization charts and evaluated District personnel duties and responsibilities to gain an understanding of District operations.
- Determined whether the District had established adequate policies and procedures for major District functions, such as revenue and cash collections, procurement of goods and services, employee compensation, and safeguarding of District assets.
- Examined District records to determine whether the District had developed an anti-fraud policy to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Reviewed internal audit reports, as well as external audit reports, issued for our audit period for matters that were significant to the scope of the audit, and considered those matters in planning the audit.
- Reviewed District policies and procedures related to identifying potential conflicts of interest. We also reviewed Department of State, Division of Corporation, records; statements of financial interests; and District records to identify any potential relationships that represented a conflict of interest with vendors used by the District during the period October 2015 through December 2016.
- Obtained the Board-approved budget for the 2015-16 fiscal year and evaluated District procedures and records for compliance with Section 373.536(4)(a) and (b), Florida Statutes.
- Determined whether District deposits were secured in a qualified public depository as required by Section 280.03, Florida Statutes, and whether the District complied with Section 280.17, Florida Statutes, public deposit account reporting requirements.
- Selected and examined documentation supporting a total of 51 bank account reconciliations, composed of 6 monthly account reconciliations for 6 bank accounts and 5 monthly account reconciliations for 3 investment accounts to determine whether the reconciliations were timely, complete, and evidenced supervisory review and approval.
- Evaluated the adequacy of District policies governing investments and examined District records supporting investment activity during the audit period to determine whether the District complied with applicable laws, ordinances, bond resolutions, and other guidelines.
- From the population of 19 transfers from restricted capital project resources totaling \$132.5 million during the audit period, examined District records supporting 2 transfers totaling \$19.6 million to determine whether the transfers were in compliance with the restrictions imposed on the use of these resources and adequately supported.

- From the population of 95 construction projects with expenditures totaling \$67.8 million during the audit period, examined District records supporting 3 projects with expenditures totaling \$17.7 million. For these 3 projects, we:
 - Examined District records to determine whether the construction managers were properly selected.
 - Evaluated District procedures for monitoring subcontractor selection and licensure and examined records to determine whether subcontractors were properly selected and licensed.
 - Examined District records to determine, as applicable, whether the architects and engineers were properly selected and adequately insured.
 - Determined whether the District established adequate policies and procedures for negotiating, monitoring, and documenting applicable general conditions costs.
 - Examined District records supporting the payments totaling \$17.7 million to the construction managers to determine whether District procedures for monitoring payments were adequate and payments were sufficiently supported.
- From the population of 39 land acquisitions totaling \$5.9 million during the audit period, examined District records supporting 5 selected land acquisitions totaling \$4.0 million, and from the population of 12 land sales totaling \$6.4 million during the audit period, examined District records supporting 5 selected land sales totaling \$4.5 million to determine whether the transactions were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines.
- Examined District tangible personal property (TPP) records for the audit period to determine whether the District complied with Chapter 274, Florida Statutes, and District policies by properly conducting a TPP physical inventory and properly accounting for surplus TPP disposals.
- Examined District records supporting the refunded debt issue totaling \$385.4 million during the 2015-16 fiscal year to determine whether the District complied with applicable provisions of laws, rules, regulations, District policies and procedures, and other guidelines.
- Examined District records supporting the 15 debt service expenditures totaling \$2.1 million during the audit period to determine whether the District complied with allowable uses established by the debt issuance documents, applicable laws, rules, regulations, and policies.
- Evaluated District policies and procedures supporting revenue cash collections. Specifically, from the population of 306 deposits totaling \$687.4 million, examined District records supporting 20 deposits totaling \$75.9 million for accuracy of amounts collected, documentation fixing responsibility for initial collections and transfers, and timeliness of bank deposit. In addition, from the population of 5,851 permits issued with fees totaling \$3.7 million, examined District records supporting 30 permits and the applicable fees totaling \$74,460 to determine whether the fees were collected and permits were issued in accordance with applicable laws, rules, and District policies and procedures.
- Evaluated policies and procedures for the collection of receivables and for write-offs of uncollectible accounts. Specifically, from the population of 108 customer receivables totaling \$44.6 million, \$33.8 million of which related to Department of Environmental Protection reimbursement grants, examined District records supporting delinquent accounts totaling \$571,721 to determine whether the District took appropriate and timely action to collect past-due amounts.
- Examined personnel records supporting 25 of the 143 new hires during the audit period to determine whether key controls over new hires (e.g., properly completed employee application, approved personnel action form reflecting original appointment and starting salary, and

documented verification that employee met the minimum requirements for the job position) were properly designed, documented, and operating effectively.

- From the population of salary payments totaling \$123.1 million to 1,359 employees during the audit period, examined District records supporting salary payments totaling \$93,516 to 30 selected employees to determine whether salary expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
- Evaluated policies and procedures related to overtime and analyzed overtime payments for the 2012-13 through 2015-16 fiscal years to identify any unexpected trends and evaluate the reasonableness of the related payments. In addition, from the population of overtime payments totaling \$3.6 million to 611 employees during the audit period, we examined overtime payments totaling \$48,402 to 30 selected employees to determine whether payments were made in accordance with applicable District policies and procedures.
- Evaluated policies and procedures for determining employee eligibility for \$4.3 million in merit bonus awards to 1,025 employees during the audit period and analyzed the methodology for calculating and awarding merit bonus amounts for compliance with Section 215.425(3), Florida Statutes, Board resolution, and District policies.
- From the population of 11,975 expenditures totaling \$272.5 million during the audit period, examined District records to determine whether expenditures were properly recorded; adequately documented; made in accordance with District policies and procedures, applicable laws, rules, grant agreements, and applicable contract terms; and properly authorized and approved. Specifically, we examined District records supporting:
 - 30 general expenditures payments totaling \$41.9 million.
 - 30 contractual agreement payments totaling \$11.1 million.
 - 30 procurement card (P-Card) transactions totaling \$93,069.
- For all 29 contracts totaling \$424.4 million initiated during our audit period pursuant to bid awards, examined the District's competitive bidding procedures and related documentation to determine whether goods and services were acquired in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- From the population of 47 employees issued P-cards during the audit period, examined District records supporting 31 selected employees to determine whether the employees accepted the P-cards and related usage terms.
- Compared employee use of 539 P-cards for the audit period to related P-card single and monthly transaction limits to determine whether the limits were reasonable and commensurate with use.
- From the population of 46 cardholders who separated from District employment during the audit period, determined whether the District timely canceled P-card privileges for 20 selected employees.
- From the population of 557 total District motor vehicles as of September 30, 2016, examined District records supporting 30 selected motor vehicles to determine whether the District maintained adequate vehicle-use records and District policies and procedures were followed. Additionally, we examined District records supporting 5 of the 24 employee take-home vehicles to determine whether these vehicles were used for authorized public purposes. Also, we evaluated vehicle purchase authorization and vehicle disposal processes for compliance with prescribed policies and procedures.
- Evaluated the District preventative maintenance program for motor vehicles and aircraft. Specifically, we examined District records supporting 30 selected inventory repair part issuances to determine whether the issuances were properly recorded in the vehicle repair records.

- Evaluated District policies and procedures to determine whether the District limited the use of, and documented the level of service for, wireless communication devices (cell phones, smartphones, and air cards). Specifically, we analyzed the level of wireless device (usage and equipment) and related stipend expenditures for the most recently completed 3 fiscal years (i.e., the 2013-14 through 2015-16 fiscal years) to identify and evaluate overall trends in use and costs. From the population of 45 invoices totaling \$71.1 million, we examined District records supporting 10 invoices totaling \$20,749 to determine whether payments complied with carrier contract terms.
- Examined District records supporting the selection of the plan administrator and service agent for the property and casualty, workers' compensation, and health self-insurance programs to determine whether the service providers selected were appropriate based on consideration of the quality of services and reasonableness of related fees. Additionally, we determined whether the plan administrator and service agent had been approved by the Office of Insurance Regulation as required by Section 112.08(2)(a), Florida Statutes. We also evaluated District procedures for verifying whether claims and other expenses paid were appropriate charges to the self-insurance programs.
- Evaluated District methods for acquiring property, aircraft hull and liability, boiler and machinery, government crime, public entity liability, and storage tank commercial insurance to determine whether the basis for selecting the carrier was documented in District records and conformed to good business practices.
- From the 4 largest State grants with expenditures totaling \$83.7 million during the audit period, examined District records supporting 15 State grant expenditures totaling \$34.5 million to determine whether expenditures complied with applicable restrictions imposed by the grant terms and other significant restrictions imposed on the District. Additionally, for reimbursement grants, we reviewed documentation to determine whether the District timely submitted reimbursement requests.
- From the 72 local grant expenditures totaling \$11.1 million, examined District records supporting 3 selected expenditures totaling \$706,240 to determine whether the District complied with grant terms and other expenditure restrictions.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

April 26, 2018

Ms. Sherrill Norman, CPA
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman,

Enclosed is a list of the responses to the preliminary and tentative audit findings and recommendations that may be included in your report on the operational audit of the South Florida Water Management District.

Please email me at dbradsha@sfwmd.gov to indicate receipt of the responses.

Sincerely,

Dorothy A. Bradshaw
Director, Administrative Services

DL/kdb

Enclosure

c: South Florida Water Management District Chair & Board Members
Timothy Beirnes, Inspector General

Audit Findings and Recommendations Responses

Finding 1: Bank Reconciliations - District bank account reconciliation documentation did not always demonstrate timely preparation and supervisory review and approval.

Recommendation: District management should ensure that bank account balances are timely Reconciled to the general ledger. District policies should be revised to require documentation for all bank account reconciliations be signed and dated by the preparer and evidence timely supervisory review and approval.

Management Response: – Bank Reconciliations will be performed by a senior level accountant and reviewed, signed and dated by supervisory level staff. The District Procedure will be updated to state that bank reconciliations shall be completed within 30 days with required supervisory review, date and signature.

Finding 2: Cash Collections – Controls over cash collections continue to need improvement.

Recommendation: The District should ensure that documentation is maintained to identify employees who receive collections, to record the transfer of collections between employees, and to demonstrate that collections are timely deposited.

Management Response: – District procedure will be updated to require a multi-step process of controls for cash collections to include signed and dated forms with track amounts and each staff member’s involvement from receipt to deposit.

Finding 3: The District continues to lack policies and procedures that ensure verification of public deposit information and timely submission of required reports to the State Chief Financial Officer.

Recommendation: The District should establish policies and procedures designating an employee responsibility for timely submitting the required annual report of public deposits to the CFO. Additionally, District procedures should be established to require supervisory personnel to verify and ensure compliance with the State law public deposit requirements.

Management Response: – The District will establish policies and procedures designating an employee responsible for timely submittal of the required annual report of public deposits to the State Chief Financial Officer. Additionally, the District will establish procedures requiring supervisory personnel to verify compliance with State law public deposit requirements.

Finding 4: District records did not always document the basis for merit bonus payments during the 2016 calendar year.

Recommendation: The Board should take action to clarify how the three performance dimensions set forth in the Board approved merit bonus should factor into the merit bonus award calculations. To support the basis upon which merit bonus awards are made, the District should develop an overall numerical score for the three performance dimensions as required by the Board resolution. In additions, the District should enhance procedures to document:

- Guidelines for measuring the three performance dimensions and consistently applying consideration of the dimensions to all employees.
- Division supervisor initial employee merit bonus award determinations, bureau chief and division director adjustments, and Executive Team adjustments, along with explanations for the determinations and adjustments.

Management Response: - The District will maintain documentation of the overall numerical score going forward. Division Directors will provide initial bonus award recommendations for employees within their respective disciplines. Guidelines for making those recommendations will be provided to Division Directors. Any adjustments will only be made by the Division Directors sitting collectively as the Executive Team. All adjustments will be documented.

Finding 5: As similarly noted in our report No. 2014-091, the District did not always comply with State records retention requirements.

Recommendation: The District should ensure that direct deposit authorizations forms are maintained as required by State Law.

Management Response: – District procedure will be updated to require all direct deposit forms be scanned and electronically filed with the District to ensure the forms are maintained as required by State Law.

Finding 6: Monitoring procedures of procurement card monthly purchasing limits need improvement.

Recommendation: The District should revise the P-Card Manual to require and ensure that documented periodic evaluation of P-Card monthly purchasing limits and related use are performed and take appropriate actions based on the evaluations. Such actions should include the cancellation of P-Cards that are not routinely used and the reduction of P-Card monthly purchasing limits commensurate with necessary use.

Management Response: – The District will revise the District’s Procedures and Procurement Card Manual to require an annual management review of procurement card usage. A complete review of current card holders has been conducted. Following review and management approval procurement cards may be cancelled and/or monthly spend limits reduced subject to the prospective need for emergency availability and small dollar amount purchases.