

Report No. 2019-001
July 2018

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

**SOUTHWEST FLORIDA
WATER MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA
Auditor General

Board Members and Executive Director

During the period October 2015 through January 2017, Brian J. Armstrong served as Executive Director from June 28, 2016, Robert Beltran served in that position before that date, and the following individuals served as Southwest Florida Water Management District Board Members:

Randall S. Maggard, Chairman from June 27, 2016; Vice Chairman through June 26, 2016
Jeffrey M. Adams, Vice Chairman from June 27, 2016; Secretary through June 26, 2016
Bryan K. Beswick, Secretary from June 27, 2016
Ed Armstrong, Treasurer from March 29, 2016
Michael A. Babb, Chairman through June 26, 2016
Thomas E. "Tommy" Bronson through March 1, 2016^a
David W. Dunbar through April 15, 2016;^b Treasurer through March 28, 2016
Wendy Griffin through August 25, 2016
John Henslick
George W. Mann
Michael A. Moran through November 14, 2016^c
Kelly S. Rice
H. Paul Senft Jr.
Mark Taylor from August 26, 2016^a
Michelle Williamson from August 26, 2016

^a Position vacant from March 2, 2016, through August 25, 2016.

^b Position vacant from April 16, 2016.

^c Position vacant from November 15, 2016.

The team leader was Elba M. Guzik, CPA, and the audit was supervised by Rachel P. Sellers, 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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SOUTHWEST FLORIDA WATER MANAGEMENT DISTRICT

SUMMARY

This operational audit of the Southwest 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. 2014-082. Our operational audit disclosed the following:

Finding 1: District records did not always evidence that the District inspector general complied with applicable statutory and Board requirements.

Finding 2: District records could be enhanced to better document the competitive procurement process.

Finding 3: The District should continue efforts to enhance and document the periodic monitoring and evaluation of the use and need for District motor vehicles.

Finding 4: Policies and procedures for monitoring claims payments for health and worker's compensation self-insurance programs could be improved.

Finding 5: Controls over employee access privileges to District data and information technology resources need enhancement to ensure that assigned access privileges appropriately restrict employees to only those functions necessary for their assigned job responsibilities and enforce an appropriate separation of incompatible duties.

BACKGROUND

Authorized in 1972, the Southwest 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 it serves. The District is one of five water management districts created under the Florida Water Resources Act of 1972¹ and includes all or part of Charlotte, Citrus, Desoto, Hardee, Hernando, Highlands, Hillsborough, Lake, Levy, Pinellas, Manatee, Marion, Pasco, Polk, Sarasota, and Sumter Counties. Governance lies with a thirteen-member Board which consists of nine representatives from the District's five designated geographic areas and four members who serve at-large. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate.

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. 2014-082.

¹ Chapter 373, Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding 1: District Inspector General

State law² and Board policies³ contain several requirements regarding the employment and duties of an inspector general (IG), who is to report directly to the Board. Specifically:

- State law and Board policies require the IG to provide direction for, supervise, and coordinate audits, investigations, and management reviews relating to District programs and operations. For example, State law and Board policies require the IG to conduct District financial, compliance, electronic data processing, and performance audits and prepare audit reports of his or her findings. Furthermore, State law and Board policies require such audits, where appropriate, to be conducted in accordance with *generally accepted government auditing standards (GAGAS)*, which require each audit organization performing such audits to have an external peer review performed by reviewers independent of the audit organization at least once every 3 years.
- State law requires the IG to develop long-term and annual audit plans based on the findings of periodic risk assessments. The plan is required to show the individual audits to be conducted during each year and the related resources to be devoted to the respective audits. Although Board policies impose the same annual audit plan requirements as State law, the policies do not require the development of long-term audit plans.
- State law and Board policies require the IG to advise in the development of performance measures, standards, and procedures for the evaluation of District programs. Additionally, Board policies require the IG to calculate and report to the Board, at least semi-annually, District performance related to the performance measures defined by the Finance and Administration Committee and approved by the Board.
- State law requires the IG to ensure that an appropriate balance is maintained between audit, investigative, and other accountability activities.

As part of our audit procedures to evaluate the District IG's compliance with State law and Board policies, we requested for examination:

- Copies of IG work plans and reports issued during the period October 2015 through September 2016, along with records to support the IG's work activities for that period. The IG planned and actual work hours by activity for the 2015-16 fiscal year are summarized in Table 1. Table 1 also shows the percentage of total actual hours spent on each activity.

² Sections 373.079(4)(b) and 20.055, Florida Statutes.

³ Board Policy 140-1, *Inspector General Charter*; and Board Policy 140-3, *Inspector General – Roles and Responsibilities*.

Table 1
Inspector General
Planned and Actual Work Hours by Activity
2015-16 Fiscal Year

Planned Activities	Planned Hours	Actual Hours	Percentage of Total Actual Hours
Discretionary Assistance to District Programs	560	844	41.5%
Consulting Projects	652	435	21.4%
Performance Measures	112	260	12.8%
Policy, Procedure, Guideline and Rule Reviews	124	144	7.1%
Audit Report	140	140	6.9%
Other Statutory Duties	128	125	6.2%
External Audit Coordination	260	76	3.7%
Annual Report	8	8	0.4%
Totals	1,984	2,032	

Source: District records.

According to the District IG, due to large financial and personnel changes, IG activities focused on consulting engagements that led to deliverables other than a standard, final audit report. Consequently, the IG only issued the annual report and one audit report during that period and the time devoted to those reports totaled 148 hours (7.3 percent) of the IG's 2,032 actual hours for the 2015-16 fiscal year. Notwithstanding, although we requested, District records were not provided to evidence IG efforts on other planned activities listed in the work plan. Given the limited attention to audit report and annual report activities (7.3 percent) and lack of documentation supporting other IG-planned activities, District records did not demonstrate that the District effectively utilized the IG role as intended by State law and Board policies.

- The documented results of any external peer reviews in the past 3 years. In response to our inquiry, the IG indicated that the District had not received a peer review in over 5 years. Absent timely, external peer reviews performed by reviewers independent of the District IG organization, District records did not demonstrate compliance with State law and Board policies, or that the IG's system of quality control was determined to be suitably designed and that the IG complied with the quality control system to provide reasonable assurance of conforming with applicable professional standards.
- Documented, periodic risk assessments and annual and long-term audit plans for the period October 2015 through January 2017. District personnel provided evidence that an audit risk assessment and plan were prepared for the 2015-16 fiscal year; however, District records were not provided to evidence any long-term audit plans or Board requirement for such plans. In response to our inquiry, the IG indicated that long-term audit plans were orally discussed with upper management but not documented. Board-required, long-term audit plans are important to ensure that District functions receive timely audit attention to detect inefficiencies or fraud and to promote prompt corrective actions and resolution of identified deficiencies.
- District records to demonstrate that:
 - The IG advised the Board in the development of performance measures, standards, and procedures for the evaluation of District programs.

- The IG calculated and reported to the Board, at least semi-annually, District performance related to the performance measures defined by the Finance and Administration Committee and approved by the Board.

In response to our request, the District IG provided an IG-prepared annual budget of planned hours for the 2015-16 and 2016-17 fiscal year audit plans, as well as information from the District's 2016 strategic plan that, according to the IG, were used as performance measures. The IG also indicated that, at the October 27, 2015, Board meeting, a report was provided on the District's progress in meeting performance measures included in the District's strategic plan. However, although we requested, District records were not provided to evidence that the IG advised the Board in the development of performance measures for the annual evaluation of District programs nor how the IG evaluated, of record, District performance against the measures established in the District's strategic plan. Also, District records were not provided to evidence that the Finance and Administration Committee had defined any performance measures or that the Board had approved such measures for these purposes. Absent Board-approved performance measures, standards, and IG procedures to perform and document the evaluation of performance measures, assurances regarding the extent to which District programs performed consistent with Board intentions and complied with State law and Board policies is limited.

Recommendation: The District should ensure that the IG performs required duties and that District records document the performance of these duties. Specifically, to ensure IG compliance with:

- **State law and Board policies, the IG should prepare and maintain records to demonstrate the effective utilization of the IG role. Such records should evidence an appropriate balance is maintained between audit and other accountability activities.**
- **GAGAS, the IG should receive an external peer review at least once every 3 years.**
- **State law, Board policies should be revised to require and ensure that the IG develops long-term audit plans based on the results of appropriate risk assessments.**
- **State law and Board policies, the IG should advise, of record, the Board in the development of performance measures, standards, and procedures for the evaluation of District programs. In addition, the IG should calculate and report to the Board, at least semi-annually, District performance related to the performance measures defined by the Finance and Administration Committee and approved by the Board.**

Finding 2: Competitive Procurement

Board policies⁴ require that formal requests for bids or requests for proposals be obtained for all general procurement transactions greater than \$100,000. Good business practices dictate that records be maintained to reduce misunderstandings associated with the bid process by documenting the date and time of bid openings and signatures of personnel present at these openings.

To determine whether District records evidenced compliance with competitive procurement requirements and conformed to good business practices, we examined District records and identified 85 vendors that the District paid more than the \$100,000 bid threshold during the period October 2015 through January 2017. From the population of \$23 million paid to the 85 vendors, we requested for examination District records, including bid solicitation reports, supporting 23 selected payments totaling \$2.5 million. We found that 14 of the 23 payments totaling \$1.3 million required bids to document a competitive

⁴ Board Policy 150-1C, *Competitive Standards*.

procurement selection, while the remaining 9 payments were for procurements that were exempt from the bid process. For example, some procurements were exempt because the procurement was from a sole-source provider.

Our examination of the 7 bid solicitation reports associated with the 14 payments disclosed that, although the reports contained the names of employees who opened the bids, the employees did not sign the reports to acknowledge that they were present at the bid openings. In addition, 3 of the 7 bid solicitation reports did not document the date the bids were opened. According to District personnel, District procedures had not been established to require personnel to sign documentation acknowledging their presence at the bid openings or District records to evidence the date and time bids were opened.

Absent effective procedures to document the bid and procurement process, including the manual signatures of the individuals who opened the bids and the date and time the bids were opened, there is an increased risk that bid awards may be legally challenged and the District cannot demonstrate that the best value was obtained. Subsequent to our inquiry, District personnel indicated that procedures were established in May 2017 to require employees present when bids are opened to manually sign and date the bid tabulation sheets.

Recommendation: The District should continue efforts to ensure that District records contain the manual signatures of who opened bids and the date and time the bids were opened.

Finding 3: Vehicle Use

As of January 31, 2017, the District maintained a total of 222 motor vehicles, including 174 automobiles, 26 all-terrain vehicles (ATVs), and 22 watercrafts for employee use while conducting official business. As part of our audit, we requested District records to evidence periodic monitoring and evaluation of the need and use for these 222 motor vehicles; however, District records were not provided.

We also requested for our examination District records supporting use of 26 motor vehicles, including 16 selected automobiles. Our examination found that the District did not optimize the use of 5 of the automobiles, which were 1 to 8 years old. The mileage for these automobiles ranged from 6,633 miles to 9,478 miles during the 2016 calendar year. According to District records, the 5 automobiles were used primarily for transportation associated with environmental resource permitting compliance, land management burn planning, and fieldwork and site visits. Three of the 5 automobiles were used fewer than half of the working days during the 3 months (November 2015, February 2016, and August 2016) selected for review.

In response to our inquiry, District personnel indicated that periodic monitoring and evaluation of the number of vehicles and their use resulted in the reduction of the automobile fleet since our prior audit.⁵ District personnel also indicated that several factors may affect the use of assigned vehicles such as staff absences, position vacancies, office closures, and the close proximity of an operator's fieldwork location to the parking location of the assigned vehicle. Notwithstanding these responses, without effective documented monitoring of vehicle use, the District is unable to demonstrate the need to retain vehicles

⁵ As of February 28, 2013, the District maintained 272 motor vehicles.

or show that vehicles are being used effectively, which may result in unnecessary maintenance costs or unnecessary vehicle purchases. A similar finding was noted in our report No. 2014-082.

Recommendation: The District should document the periodic monitoring and evaluation of the use and need for District motor vehicles and a determination of whether it is more cost efficient to retain and maintain the existing number of motor vehicles or reduce the size of the fleet based on District needs.

Finding 4: Self-Insurance Programs

Pursuant to State law,⁶ the District established a health self-insurance program for employees, retirees, and dependents and a workers' compensation self-insurance program for employees. The District contracted with a third-party administrator (TPA), approved by the Florida Office of Insurance Regulation, to administer the District's health and workers' compensation self-insurance programs. During the period January 2016 through January 2017, the District paid \$6.1 million for health self-insurance claims and \$380,028 for workers' compensation claims.

The TPA was responsible for evaluating and paying claims and monitoring excess insurance claims. To provide assurances that claims payments were for eligible participants, in accurate amounts, and to appropriate service providers, service organizations, such as TPAs, are often required to provide a service organization controls (SOC) 1[®] Type 2 report as described in the *Statement on Standards for Attestation Engagements*.⁷ Such a report provides the service auditor's opinion on the suitability of internal control policies and procedures placed in operation for claims processing and describes the effectiveness of TPA claims processing controls. If a TPA SOC 1[®] Type 2 report is not provided, other measures, such as the performance of a test of claims payments processed by the TPA, would be necessary to obtain those assurances.

In response to our inquiry, District personnel provided records for the health self-insurance program to evidence that a Human Resources Program Analyst compared monthly health claims invoice summaries to District employee benefit records to verify that health service recipients, including employees, dependents, and retirees, were eligible for health insurance. If the Analyst identified an error, the TPA was notified to correct the error by either reducing automatic withdrawals from the District bank account for the unprocessed contested claim or crediting the next monthly health claims invoice summary for claims that had already been processed.

District personnel also provided records for the workers' compensation program to demonstrate that District personnel compared TPA reports supporting workers' compensation claims payments to District records to verify those payments were for District employees with an open workers' compensation claim and that the provider was authorized. If verified, the workers' compensation claims documentation was

⁶ Section 112.08, Florida Statutes.

⁷ A *Statement on Standards for Attestation Engagements No. 16* (SSAE 16), *Reporting on Controls at a Service Organization*, SOC 1[®] Type 2 report contains a service auditor's opinion on the fairness of the presentation of the service organization management's description of the service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives included in the description throughout a specified period. The SSAE 16 SOC 1[®] Type 2 report was replaced with the SSAE 18, *Attestation Standards: Clarification and Recodification AT-C Section 320 Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, SOC 1[®] Type 2 report effective for service organization reports dated May 1, 2017, or after.

forwarded to the District Finance Department, and the Finance Department reimbursed the TPA for the claims paid.

While our examination of District records disclosed that the District typically verified the eligibility of recipients of health and workers' compensation insurance services, we identified certain deficiencies relating to health and workers' compensation claims processes. Specifically:

- Our examination of District contracts with the TPA disclosed that the contracts did not require the TPA to provide SOC 1[®] Type 2 reports for the health self-insurance or workers' compensation programs.
- Although the TPA contract for the health self-insurance program did not require SOC 1[®] Type 2 reports, District personnel obtained and provided for our review these reports regarding the suitability of the TPA internal control policies and procedures for the 2015-16 and 2016-17 fiscal years. However, the report for the 2015-16 fiscal year contained a qualified opinion because the service auditor noted that the TPA system controls over benefit changes did not operate effectively to ensure the changes were recorded in the system completely and accurately. In addition, while the SOC 1[®] Type 2 report for fiscal year 2016-17 contained an unqualified opinion, the report specifically excluded consideration of controls related to TPA subservice claims processed by pharmacy-related claims services, which for the District collectively totaled \$1,419,566 for the 2016-17 fiscal year.
- Although we requested, no District records were provided to evidence any SOC 1[®] Type 2 reports related to the workers' compensation program. However, District personnel obtained and provided for our review a SOC 1[®] Type 1 report,⁸ as of January 31, 2017, that assessed the fairness of the TPA management's description of the service organization's system and the suitability of the design of controls. Notwithstanding, the audit firm was not required to determine nor did the report disclose the operating effectiveness of TPA controls over claims processing or express an opinion thereon.

As part of our audit of health insurance and workers' compensation claims payments, we requested for examination documentation supporting 30 selected health insurance claims payments totaling \$958,000 and documentation supporting 30 selected workers' compensation claims payments totaling \$18,966. We found that the selected health insurance claims payments were authorized for accurate amounts and for eligible participants and the workers' compensation claims payments were for eligible District employees. However, our procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control over processing claims payments. Without assurance that controls over claims payments are suitably designed and operating effectively, there is an increased risk of erroneous or fraudulent payments.

Recommendation: The District should enhance procedures to effectively monitor health and workers' compensation self-insurance claims payments. Such procedures could specify that:

- **To provide assurance as to the effectiveness of claims processing controls, the District's contract with the TPA require the TPA to annually obtain a SOC 1[®] Type 2 report on the TPA's controls and timely submit the report to the District for review.**

⁸ A SOC 1[®] Type 1 report is an attestation of controls at a service organization at a specific point in time, whereas a SOC 1[®] Type 2 report is an attestation of controls at a service organization over a period of time (typically minimum 6-month period). The SOC 1 Type 1 reports on the description of controls provided by management of the service organization and attests that the controls are suitably designed and implemented. The SOC 1[®] Type 2 reports on the description of controls provided by management of the service organization, attests that the controls are suitably designed and implemented, and attests to the operating effectiveness of the controls.

- **If the service auditor’s report discloses that the TPA’s controls over claims processing are not suitably designed and operating effectively, the District should determine the risks associated with the control deficiency and either require the TPA to implement appropriate controls or find a new service provider to suitably administer the District’s health and workers’ compensation self-insurance programs.**

Finding 5: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, creation, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, add, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their area of responsibility. Periodically reviewing the appropriateness of employee access privileges promotes good internal control and is necessary to ensure that employees cannot access IT resources that are incompatible with their assigned job responsibilities.

Our examination of District records supporting the 98 employees with access to the finance system and the 16 employees with access to the human resource (HR) system or payroll system disclosed that 13 employees had access privileges that permitted them to perform unnecessary or incompatible functions. Specifically:

- 7 employees who were not in the Payroll Department (2 HR Department temporary employees, a Risk and Safety Professional Department employee, and four other employees) had unnecessary access to the HR system that allowed the employees to add employee names, update employee addresses, and update salaries in the system. While such functions are appropriate for Payroll Department personnel, these access privileges were unnecessary and incompatible with the 7 employees’ duties.
- 3 Finance Department employees (a senior budget analyst, the Finance Bureau Chief, and an accounts payable employee) had unnecessary access privileges to functions within the HR system that allowed the employees to update salaries in the payroll system and add employees and update employee information in the HR system. However, the ability to perform these functions is appropriate only for Payroll Department personnel.
- A senior budget analyst and a financial systems employee in the Finance Department had finance system-wide access privileges that allowed the employees to update all functions within the finance system. These privileges were inconsistent with the 2 employees’ assigned duties and examples of these functions included creating and updating vendor accounts; creating and approving purchase orders; and creating, approving, and paying vouchers.
- A senior application systems administrator in the IT Department had system-wide access privileges that allowed the administrator to access to all functions within the HR and payroll systems. Such access was incompatible with the employee’s assigned duties and allowed the employee to add and update employee records, update salaries, and create and make direct deposits.

In response to our inquiries, District personnel indicated that access privileges were mainly granted to allow the employees to perform back-up duties when the employees primarily responsible for the duties were unavailable, and for appropriate employees to research and correct budget issues in the payroll system. District personnel also indicated that the payroll supervisor used payroll reports, as a

compensating control, for monitoring payroll data changes; however, although we requested, District records were not provided to evidence these monitoring procedures. In addition, the District had not established procedures to, and District personnel did not, periodically review the appropriateness of employee access privileges to ensure that employees did not access IT resources or functions that were incompatible with their assigned job responsibilities. The existence of inappropriate or unnecessary IT access privileges increase the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur.

Recommendation: The District should ensure that assigned access privileges restrict employees to only those functions necessary for their assigned job responsibilities and enforce an appropriate separation of incompatible duties. To help monitor assigned access privileges, the District should establish procedures to periodically review the appropriateness of such privileges to ensure that employees do not access IT resources and functions that are incompatible with their assigned job responsibilities. In addition, if an employee only requires occasional access to perform back-up duties, the access should be granted only for the time needed.

PRIOR AUDIT FOLLOW-UP

Except as discussed in Finding 3, the District had taken corrective actions for the applicable findings included in our report No. 2014-082.

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 law⁹ 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 October 2015 through January 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 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.

⁹ Section 11.45(2)(f), Florida Statutes.

- Determine whether management had taken corrective action for, or was in the process of correcting, findings included in our report No. 2014-082.
- To 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 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 of October 2015 to January 2017, 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 entity 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:

- Evaluated the duties and responsibilities administratively assigned to the District and examined documentation such as organization charts and minutes of Board meetings to determine whether the District complied with Chapter 373, Florida Statutes.
- Evaluated the effectiveness of District policies and procedures relating to major District functions, such as revenue and cash collections, procurement of goods and services, employee compensation, and safeguarding District assets, to determine whether internal controls were designed properly and operating effectively.
- Reviewed District employee financial disclosure forms for the 2015 tax year and District vendor records for October 2015 through January 2017, and searched the State of Florida, Division of Corporations, records to determine whether potential conflicts of interest existed among District employees.

- Examined District records to determine whether statutorily required positions had been established for a District Ombudsman, Inspector General, and Board Secretary-Treasurer, and whether these positions were operating effectively. We also examined District records to determine whether Board Members met the residency and experience requirements of Section 373.073(2), Florida Statutes.
- Obtained the Board-approved budget for the fiscal year-end September 30, 2016, and evaluated applicable policies and procedures for compliance with the budgetary requirements of Section 373.536(4)(a) and (b), Florida Statutes.
- Evaluated District compliance with budget-related transparency requirements for the fiscal year-ended September 30, 2016, pursuant to Section 373.536(4)(e), (5)(d), and (6)(d), Florida Statutes.
- Evaluated District policies and procedures for reporting committed fund balances for the fiscal year-ended September 30, 2016, in accordance with generally accepted accounting principles.
- From the population of assigned fund balance totaling \$221 million reported at the September 30, 2016, fiscal year-end, examined 10 assignments to fund balance totaling \$106 million to determine whether assigned fund balance amounts were materially correct and properly classified.
- Examined four bank account and six investment account reconciliations for the months of September, October, and November 2016 to assess the completeness of the reconciliations and determine whether supervisory approval of the reconciliations was documented.
- From the population of 2,165 electronic funds transfers (EFTs) totaling \$13 million during the audit period, examined District records supporting 30 selected EFTs totaling \$94,877 to determine whether EFTs were properly authorized, processed, and documented.
- Evaluated the adequacy of District policies governing investments and examined District records supporting selected investment activity during the audit period to determine District compliance with applicable laws and District policies. Also, we evaluated District procedures for allocating interest earnings to respective District funds.
- Evaluated District tangible personal property (TPP) controls for the annual physical TPP inventory and the disposal of surplus TPP to determine compliance with Chapter 274, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-73, Florida Administrative Code.
- Examined District records supporting the \$2.0 million land acquisition and all 12 land disposition transactions totaling \$1.9 million during the audit period to determine whether the District complied with applicable laws, rules, regulations, District policies and procedures, and other guidelines associated with these transactions.
- Evaluated whether the District subsidiary land ledger was complete and properly supported the amount reported for land on the financial statements for the fiscal year ended September 30, 2016.
- Evaluated District policies and accounting procedures for assessing and collecting permit fees, taxes, and other revenue sources and compliance with Sections 201.15 and 218.33, Florida Statutes; District rules; and Chapter 40D-1, Florida Administrative Code.
- Assessed the adequacy of District-established policies and procedures for physically securing cash collections and, from the population of 12,686 cash receipts totaling \$204 million during the audit period, examined District records supporting 30 selected cash receipts totaling \$8 million for accuracy and timeliness of bank deposits.
- From the population of 10,111 permit receipts totaling \$2.1 million during the audit period, examined District records supporting 30 permit receipts totaling \$90,449 to determine whether proper authorization was obtained before permits were issued.

- From the population of 81 accounts receivable totaling \$12 million as of January 31, 2017, examined District records supporting 10 accounts receivable totaling \$11 million to determine whether the District subsequently collected the receivable amounts.
- From the population of compensation payments totaling \$29.5 million made to 644 employees during the audit period, examined District records supporting compensation payments totaling \$40,585 made to 30 selected employees to determine whether the expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
- Examined District personnel records for 30 selected employees during the period October 2015 through September 2016 to determine whether employee performance evaluations were conducted in accordance with District policies and procedures.
- Examined District records supporting bonus payments to 8 of the 108 employees during the period October 2015 through September 2016 to determine whether the payments were made in accordance with District policies and procedures.
- Examined District records for 23 of the 91 new hires during the audit period to determine whether the personnel files contained a completed application, personnel action form, and evidence that employees met the position minimum requirements.
- Analyzed District considerations to evaluate whether it would be more cost-effective to implement health and workers' compensation self-insurance programs than to incur commercial insurance costs.
- For District health and workers' compensation self-insurance programs, determined whether the District reported the required actuary-prepared statement regarding the actuarial soundness of the self-insurance plans to the Office of Insurance Regulation. We also examined District contracts with the third-party administrator (TPA) for these self-insurance programs to determine whether the contracts required the TPA to obtain TPA service organization controls (SOC) 1[®] Type 2 reports and examined available reports to help assess the suitability of control policies and procedures over claims payment processes.
- Examined District records supporting 30 selected health insurance claims expenditures totaling \$958,000 for the period January 2016 through January 2017, from the population of health insurance claims expenditures totaling \$6.1 million, to determine whether the expenditures were authorized and for eligible participants.
- Examined District records supporting 30 selected workers' compensation claims expenditures totaling \$18,966 for the period October 1, 2015 through January 1, 2017, from the population of workers' compensation claims expenditures totaling \$308,028, to determine whether the expenditures were for eligible District employees.
- From the population of 222 motor vehicles as of January 31, 2017, examined District records supporting the use of 26 selected motor vehicles (16 automobiles, 5 all-terrain vehicles, and 5 watercrafts) to determine whether District vehicle policies and procedures were followed and vehicle assignments were appropriate and adequate records were maintained.
- From the population of \$23 million paid to 85 vendors, we evaluated the competitive procurement selection process related to 14 payments totaling \$1.3 million.
- During the period October 2015 through January 2017, the District received wireless device services from one vendor and, as of January 31, 2017, District employees were assigned 28 air cards. We evaluated the adequacy and sufficiency of District policies and procedures for assigning those services for 6 of the 16 months during the audit period and reviewed District records to determine whether the assignments and use were properly authorized and documented.

- Examined District records supporting 30 selected journal entries from the population of 80,252 journal entries to determine whether entries were properly approved, accurately recorded, and adequately documented.
- Examined District records to determine whether selected expenditures during the audit period were in correct amounts and adequately documented; made in accordance with applicable laws, rules, and applicable contract terms; and properly authorized and approved. Specifically:
 - From the population of District expenditures totaling \$14 million, we examined District records supporting 30 selected general expenditure payments totaling \$889,554.
 - From the population of purchasing card (P-card) expenditures totaling \$2.6 million, we examined District records supporting P-card expenditures totaling \$21,926.
- Evaluated the adequacy and sufficiency of District P-card policies and determined whether P-card procedures were operating effectively. Specifically, we examined District records for 23 of the 82 employees who had P-cards during the audit period to determine whether P-card issuances were properly authorized. In addition, we examined District records for 23 of the 101 employees who separated from District employment to determine whether P-cards were promptly canceled.
- From the population of 232 contractual service contracts in effect during the audit period, examined District records supporting 15 contracts totaling \$1.4 million to determine whether applicable service providers with the highest rank were awarded contracts and contracts were reasonable and necessary; contained required provisions; made in accordance with applicable laws, rules and regulations; and were properly authorized and approved. Additionally, we scanned District records and examined records supporting 10 selected contract expenditures totaling \$625,275 to determine whether contract deliverables were clearly defined and District records documented verification of deliverables prior to payment for the deliverables.
- Evaluated controls over employee access to information technology and other District resources. Specifically, we examined District records for the 98 employees with access to the finance system and the 16 employees with access to the human resource system or payroll system to determine whether these employees' access privileges were necessary for their respective functions.
- From the population of restricted fund expenditures totaling \$5.3 million incurred during the period October 2015 through January 2017, examined District records supporting eight disbursements totaling \$2.8 million to determine whether District controls were adequate to separately account for and properly expend moneys from restricted resources.
- Examined District records supporting a \$2 million settlement agreement, selected from the population of settlement agreements totaling \$2.6 million incurred during the period October 2015 through January 2017, to determine whether the amount paid was the same as the agreement amount.
- 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



An Equal
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Employer

Southwest Florida Water Management District

2379 Broad Street, Brooksville, Florida 34604-6899

(352) 796-7211 or 1-800-423-1476 (FL only)

WaterMatters.org

Bartow Office

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

Sarasota Office

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

Tampa Office

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

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Executive Director

June 26, 2018

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

Dear Ms. Norman:

This letter provides the District's written statement of explanation concerning the list of preliminary and tentative audit findings and recommendations included with your letter to the District of June 7, 2018. It is being provided in compliance with the requirements of Section 11.45(4)(d), Florida Statutes. The operational audit of the Southwest Florida Water Management District for the 2015-16 fiscal year completed by your office resulted in 5 tentative audit findings. The findings are addressed in the order that they appear in your preliminary report.

Finding No. 1: The District will work to ensure that the recommendations included with this finding are expeditiously addressed once a new Inspector General is in place. The District's current Inspector General resigned his position. The District has initiated procedures for the recruitment and selection of a replacement. It is anticipated that the District will have a new Inspector General in place by the end of September 2018.

Finding No. 2: The District implemented procedures in May 2017 to require employees present when bids are opened to sign the bid tabulation sheets. The date is reflected on the bid tabulation sheets which are printed during the bid opening. The District will continue efforts to ensure that the procedures now in place are followed and reflected in District records.

Finding No. 3: The District process of evaluating and monitoring the use of District motor vehicles is ongoing. Since January 2017, District staff have implemented a process to provide quarterly reports to senior management that include Bureau-specific utilization metrics for automobiles.

Finding No. 4: The District will ensure the requirement to annually provide the SOC-1, Type 2 report is in the TPA contracts. The District will create an internal procedure to document the review of the reports and take any action deemed necessary to ensure the controls over claims processing are suitably designed and operating effectively.

Finding No. 5: The District recently began implementation of a multi-phased system which when fully implemented will replace several systems with an integrated Human Capital Management System. The permissions in the new system are assigned based on job responsibilities and are reviewed and maintained on an ongoing basis. As part of a larger process of Identity Governance and Administration, the District will begin developing and implementing a management process to ensure that system permissions are appropriate. Identity and Access Management (IAM) will be a vital component of this multi-year project to enhance security of IT assets and infrastructure.

The District's Inspector General is charged with the responsibility to monitor the implementation of the District's response to any audit of the District by the Auditor General or any other auditors. The District will ensure that the new Inspector General understands those responsibilities and complies with both statutory and policy requirements.

Thank you for your time and effort.

Sincerely,



Jeffrey M. Adams
Governing Board Chairman