

**ST. JOHNS RIVER  
WATER MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA  
Auditor General

## **Board Members and Executive Director**

During the period October 2014 through February 2017, Hans G. Tanzler, III, served as Executive Director until May 4, 2015, Michael A. Register served as Interim Executive Director from May 5, 2015, through May 31, 2015, and Dr. Ann B. Shortelle served as Executive Director from June 1, 2015, and the following individuals served as St. Johns River Water Management District Board Members:

John A. Miklos, Chairman  
Fred N. Roberts, Jr., Vice Chairman from 11-12-14,  
Secretary through 11-11-14  
Maryam H. Ghyabi, Vice Chairman through 11-11-14  
Ronald S. Howse from 4-8-15, Treasurer from 11-15-16  
Carla Yetter, Treasurer 11-12-14 through 11-14-16  
George W. Robbins through 3-13-16, Treasurer through 11-11-14  
Charles W. Drake, Secretary from 11-12-14  
Douglas C. Bournique  
John P. Browning from 3-14-16  
Douglas Burnett  
Lowry A. Daniels through 4-7-15

The team leader was Donald D. Hemmingway, CPA, and the audit was supervised by Randy R. Arend, CPA.

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

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# ST. JOHNS RIVER WATER MANAGEMENT DISTRICT

## **SUMMARY**

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This operational audit of the St. Johns River Water Management District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2014-019. Our operational audit disclosed the following:

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

**Finding 2:** For the design-build Lake Apopka Dredging, Spoil Management, and Water Treatment Project, District records did not evidence that a licensed design professional prepared a design criteria package and was designated to serve as the District's representative, and that a competitive process was used for selecting subcontractor services or that direct negotiations with the contractor for subcontractor services best met District needs for these services.

**Finding 3:** As similarly noted in our report No. 2014-019, contrary to State law, the District did not competitively award construction projects individually estimated to cost more than \$300,000.

**Finding 4:** The Board acquired land for conservation purposes with a purchase price of \$11.4 million. Board records indicated that the acquisition would be funded from various resources, including private third-party entity resources totaling \$916,850; however, those resources contributed only \$488,000 without Board authorization for departing from the Board's original intent.

## **BACKGROUND**

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The St. Johns River Water Management District was established in 1972 to protect and manage water resources in a sustainable manner for the continued welfare of the citizens across the area it serves. The District is one of five water management districts created under the Water Resources Act of 1972<sup>1</sup> and includes Brevard, Clay, Duval, Flagler, Indian River, Nassau, Putnam, Seminole, St. Johns, and Volusia Counties and portions of Alachua, Baker, Bradford, Lake, Marion, Okeechobee, Orange, and Osceola Counties. The District encompasses 12,283 square miles, or about 23 percent of the state's total land area. Governance lies with a nine-member board consisting of one representative from each of the District's five designated geographic areas and four at-large members. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate.

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<sup>1</sup> Chapter 373, Florida Statutes.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: District Inspector General**

During the period June 2014 through June 2018, the District's Inspector General (IG) position was held by 3 individuals. The first individual was in the position through May 31, 2016; the second individual was in the position from June 7, 2016, through January 5, 2017; and the position had been vacant for over 9 months when the third individual was employed as IG on October 24, 2017. State law<sup>2</sup> contains several requirements regarding the employment and duties of an IG, who is to report directly to the Board. Among other things, State law requires the IG to:

- Provide direction for, supervise, and coordinate audits, investigations, and management reviews relating to District programs and operations. For example, State law requires the IG to conduct District financial, compliance, electronic data processing, and performance audits and prepare audit reports of his or her findings.
- Conduct audits in accordance with *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* as published by the Institute of Internal Auditors, Inc. or, where appropriate, in accordance with *generally accepted government auditing standards (GAGAS)*.
- 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.
- Advise in the development of performance measures, standards, and procedures for the evaluation of District programs.
- Ensure that an appropriate balance is maintained between audit, investigative, and other accountability activities.

According to the District's IG procedures manual, dated December 6, 2006, the IG performs audits in accordance with *IIA Standards* or, where appropriate, *GAGAS*. *IIA Standards* require the Chief Audit Executive to establish and maintain a quality assurance and improvement program to provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. *IIA Standards* provide that a quality assurance and improvement program should include ongoing monitoring of the performance of the internal audit activity, as well as periodic reviews performed through self-assessment. In addition, an external assessment review is required at least once every 5 years by a qualified independent reviewer from outside the organization to determine the adequacy of the IG's quality assurance and improvement program.

Our examination of District records disclosed that, although the IG advised in the development of performance measures, standards, and procedures for the evaluation of District programs, the Board had not established policies and procedures to require and ensure IG compliance with State law. To evaluate the District IG's compliance with State law, we reviewed District records and found that:

- The applicable IG prepared an annual work plan for the 2014-15, 2015-16, and 2016-17 fiscal years based on risk assessments and the plans were submitted to and approved by the Board. However, none of the individuals serving as IG submitted a long-term audit plan to the Board for approval. Board-required, long-term audit plans are important to ensure that District functions

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<sup>2</sup> Section 373.079(4)(b), and 20.055, Florida Statutes.

receive timely audit attention to detect inefficiencies or fraud and to promote prompt corrective actions and resolution of identified deficiencies.

- The IGs did not ensure, or did not demonstrate, that an appropriate balance was maintained between audit, investigative, and other accountability activities. Specifically, the 2014-15 and 2015-16 fiscal year work plans did not include any planned audits. The 2016-17 fiscal year work plan included three audit projects as well as recurring activities, such as special audit requests, complaint investigations, and risk assessments and addressed administrative activities, such as developing the IG Web page, preparing the 2018 work plan, and issuing the IG annual report. However, the 2016-17 work plan did not provide planned hours for the anticipated projects or activities and District records were not available to demonstrate the hours spent on each individual project and activity.
- During the period October 1, 2014, through May 31, 2016, the IGs conducted four investigations, four reviews, and ten management assistance projects. Additionally, the IG conducted an investigation, a review, and a management assistance project during the period June 7, 2016, through January 5, 2017. However, according to District personnel, no audits were conducted during those periods.
- As of June 5, 2017, the District had not received an external quality assurance review of IG operations since December 2006. Absent timely, external peer reviews performed by reviewers independent of the District IG organization, District records did not demonstrate compliance with State law or *IIA Standards* and the Board has limited assurance that the IG's internal audit activity operates in conformity with applicable auditing standards.

In response to our inquiry, in July 2018 District personnel indicated that a long-term audit plan, an audit, and an external quality assurance review was planned for the 2018-19 fiscal year. Notwithstanding, without the long-term plans, audits, and quality assurance reviews, there is limited assurance that the IG function is operating in accordance with State law and applicable auditing standards.

**Recommendation:** The District should establish Board policies that require and ensure that the IG performs statutorily required duties and that District IG records document the performance of these duties in accordance with State law and applicable *IIA Standards* and, where appropriate, *GAGAS*. Such policies should address:

- The preparation and maintenance of records demonstrating the effective utilization of the IG role. Such records should evidence that the IG maintained an appropriate balance between audit and other accountability activities.
- The receipt of an external quality assurance review within the prescribed timeframe established by the applicable standards.
- The development of long-term audit plans based on the results of appropriate risk assessments.

## **Finding 2: Selection of Design-Build Firm**

The District is required to procure design-build services in accordance with State law,<sup>3</sup> and to award design-build contracts in accordance with the procurement laws and rules applicable to the District. District rules<sup>4</sup> require that a design criteria professional be selected by the District, or be a District

<sup>3</sup> Section 287.055(9), Florida Statutes.

<sup>4</sup> St. Johns River Water Management District Rules, Chapter 40C-1, Part VII, Subpart B, *Design-Build Provisions*, Florida Administrative Code.

employee, and that a design criteria package containing project specifications and requirements be prepared, sealed, and used to provide sufficient information upon which design-build firms may prepare proposals or upon which negotiations may be based. These rules also require public notice be given of each instance in which professional services are being sought for a design-build project. Such notice is to provide a general description of the project and request qualifications from design-build firms.

A design-build firm desiring to provide design-build services for a project is required to timely submit a letter of interest to the District. The letter of interest is to include the following qualifications weighted for evaluation: evidence of current professional status; availability; location; adequacy of personnel; past contractual record and related experience; recent, current, and projected workloads; volume and quality of work previously awarded to the firm by the District; willingness to meet time and budget requirements; and whether the firm is a certified minority business. After reviewing the submitted letters of interest, District staff are to select no less than three firms deemed to be most highly qualified to provide the required design-build services and request those firms to provide proposals for the project based on the criteria in the request for proposal and design criteria package. District staff evaluate each firm's proposal based on price, and technical and design aspects of the project, weighted for the project.

Our examination of District records disclosed that, during the period October 2014 through February 2017, the District had one design-build project, which was the Lake Apopka Dredging, Spoil Management, and Water Treatment Project (Lake Apopka Project). The District requested qualifications from design-build firms, as required by District rules, for design-build services related to the Lake Apopka Project and, in October 2014, the Board entered into a contract with a design-build firm. The contract authorized expenditures not to exceed \$4.5 million for the design-build services.

Our review of District records supporting the selection process of the design-build firm and Lake Apopka Project administration disclosed that:

- District records did not evidence that a design criteria package was prepared for the Project. In response to our inquiry, District personnel indicated that the District employee who was the Project manager was a licensed design professional and the Project's design criteria professional; however, a design-criteria package was not prepared. District personnel also indicated that the request for qualifications included the design criteria package specifications and requirements; however, including this information in the request for qualifications is contrary to District rules, which require that the design criteria package be sealed and used to provide information upon which design-build firms may prepare proposals or upon which negotiations may be based.
- The selected firm's response to the request for qualifications for element one (engineering, surveying, and dredging services) incorporated the dredging subcontractors as part of the Project Team, and the fees and rates were negotiated as part of the design-build contract. The Project work for element one was divided into discrete deliverables and accomplished through the issuance of work orders, with all work performed on a time and materials basis using unit rates approved in the contract, with negotiated and agreed to not-to-exceed values for identified tasks within each deliverable.

The contract with the design-build firm for element one included a provision for other direct costs specified on the work orders, such as materials, equipment, and subcontract work; however, because the subcontractors were part of the Project Team, the fees and rates were negotiated as part of the design-build contract. In response to our inquiries, District personnel indicated that the process used allowed for faster implementation of the Project since the dredging contractor was in place once the Project design was complete. Notwithstanding, negotiating fees and rates

as part of the design-build contract prevents competitive selection of the subcontractors based on bids or quotes.

On July 11, 2017, the contract was subsequently amended to increase the not-to-exceed amount by \$2.7 million, to a total of \$7.2 million, and to extend the expiration date for project completion until January 24, 2019. Notwithstanding, without developing a design criteria package and using a competitive selection process for subcontractor services, or documentation to evidence that direct negotiations with the contractor for subcontractor services best met District needs for such services, there is an increased risk that Project direct costs were not obtained at the best value consistent with acceptable quality.

**Recommendation:** District management should ensure that State law and District rules and procedures are followed when selecting and contracting with design-build firms, including procedures that require the preparation of a design criteria package upon which design-build firms may prepare proposals or upon which negotiations may be based. In addition, District management should also ensure that a competitive selection process is utilized to procure project subcontractors or document, of record, the Board's determination that direct negotiations with contractors for both contractor and subcontractor services is in the District's best interests.

### **Finding 3: Construction Contracts**

State law<sup>5</sup> requires that the District, when seeking to construct or improve a public building, structure, or other public construction works, competitively award to an appropriately licensed contractor each project estimated to cost more than \$300,000. Competitively award means to award contracts based on the submission of sealed bids, proposals submitted in response to a request for proposal, proposals submitted subsequent to a request for qualifications, or proposals submitted for competitive negotiation. State law allows contracts for construction management services, design-build contracts, continuation contracts based on unit prices, and any other contract arrangement with a private sector contractor permitted by any applicable municipal or county ordinance, by district resolution, or by State law.

During the 2012-13 fiscal year, the Board entered into contracts with three construction firms for specified work, such as stormwater treatment, wetland restoration, general earthwork, and stabilized and paved roadways. The contracts were awarded pursuant to an invitation for bid (IFB) based on a hypothetical construction project using hourly labor and equipment bid rates, were effective for 1 year with an option to renew for two additional 1-year periods, and provided that individual projects would be assigned to construction firms using work order authorizations. The contracts were subsequently renewed for the two additional 1-year periods, and the estimated annual budgets for work order authorizations totaled \$5.1 million for the initial contract period, \$5.3 million for the first renewal period, and \$6 million for the second renewal period. As these contracts were approaching expiration in December 2015, the District utilized a similar IFB process (based on a hypothetical construction project using hourly labor and equipment bid rates) to select and contract with two of the three construction firms previously contracted with for the 3-year period January 2016 to February 2019. The total estimated budget for work order authorizations to be issued under these contracts was \$9 million for the 3-year contract period.

To determine the effectiveness of District controls over the selection and awarding of construction contracts, we selected for examination the 10 work orders, totaling \$4,356,524, issued for individual

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<sup>5</sup> Section 255.20(1), Florida Statutes.

projects during the period October 2014 through June 2017 with costs that individually exceeded \$300,000 after change orders. We found that 2 work orders were issued, in the amounts of \$699,124 and \$500,000, to one of the three construction firms the District contracted with for specified work without competitively awarding the projects as required by State law. In response to our inquiries, District personnel indicated their intent to separately bid future construction projects as required or document an allowable exemption for not competitively awarding projects. Notwithstanding the District's response, and although the District utilized a competitive process to award the construction firm contracts, State law requires the District to competitively award each project estimated to cost more than \$300,000 and District records did not evidence an allowable exemption for not competitively awarding these projects.

Fair and open competition is a basic tenet of public procurement and such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. In the above circumstances, District records do not evidence that the projects were constructed in the most economical manner or that construction-related services were obtained in accordance with applicable State law. Additionally, when construction projects are not competitively awarded, the public's confidence is limited regarding the fair, equitable, and economical procurement of construction-related services. A similar finding was noted in our report No. 2014-019.

**Recommendation: District management should comply with State law and competitively award each construction project estimated to cost more than \$300,000 or document an allowable exemption for not competitively awarding such projects.**

#### **Finding 4: Land Acquisition**

State law<sup>6</sup> declares it to be necessary for the public health and welfare that water and water-related resources be conserved and protected. The acquisition of real property for this objective constitutes a public purpose for which public funds may be expended. State law further provides that the governing board (Board) of the District is empowered and authorized to acquire in fee or less than fee title to real property and other interests or rights therein. Additionally, District rules<sup>7</sup> provide that all contracts to purchase real property must be in writing and are contingent on approval by the Board.

On September 8, 2015, the Board held a public hearing and approved the acquisition of 4,781 acres of land for conservation purposes with a purchase price of \$11,446,850. The Board agenda item recommending the acquisition indicated that the acquisition price would be funded from District resources totaling \$8,530,000, Florida Department of Environmental Protection (FDEP) resources totaling \$2,000,000, and private third-party entity resources totaling \$916,850. Although the third-party entity previously agreed to acquire the property from the sellers, the third-party entity entered into agreements assigning its acquisition rights to the District and pledging \$916,850 toward the District's acquisition. The agreements required the third-party entity to provide written notice to the District and the sellers on or before November 16, 2015, indicating the status of the third-party entity's contribution toward the acquisition and contained a closing contingency providing for the assignment agreements to

<sup>6</sup> Section 373.139, Florida Statutes.

<sup>7</sup> St. Johns River Water Management District Rule 40C-9.041, Florida Administrative Code.

automatically terminate if the anticipated funding from the FDEP or the third-party entity was not available at closing, unless the Board waived the closing contingency provision in writing.

The third-party entity provided the required written notice of contribution status in a letter dated November 16, 2015, indicating that it had received funds and pledges totaling \$430,000 for its contribution toward the land acquisition and indicated that the solicitation of contributions from individuals, businesses, and foundations was continuing. At closing, the third-party entity-provided resources totaled only \$488,000 of the \$916,850 pledged and District records did not evidence that the closing contingency provision was waived by the Board; nevertheless, on December 9, 2015, the Board acquired the property for \$11,446,850. The remaining \$428,850 of the balance pledged by the third-party entity was paid from other District funding sources.

Our discussions with District personnel disclosed that the third-party entity was unable to raise the contribution amount pledged toward the purchase and, although the closing documents were amended to indicate the changes in funding sources, the closing contingency was not specifically waived in writing by the Board as required by the assignment agreements. District personnel indicated that no further Board action was required because the District received an additional \$3.7 million contribution toward the land purchase through the Florida Department of Agriculture and Consumer Services prior to closing, which made other District funding sources available to complete the acquisition within the original budget, and without the full third-party entity-pledged contribution.

District personnel also indicated that Board approval is only needed when an acquisition price exceeds the amount budgeted or when a contract to acquire real property requires an amendment. Notwithstanding, without the Board's written approval to waive the closing contingency provisions in the assignment agreements, there is limited assurance that accepting a reduction in the third-party entity's contribution by \$428,850 and proceeding with the closing was consistent with the Board's intent.

**Recommendation:** The District should ensure that Board approval is obtained and documented for all real property acquisitions and any changes to the conditions of an acquisition, including any changes to the funding resources used to acquire the property. In addition, for the December 9, 2015, property acquisition, the Board should document in the public records its intent to waive the assignment agreements' closing contingency provisions.

## ***PRIOR AUDIT FOLLOW-UP***

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Except as discussed in Finding 3, the District had taken corrective actions for the applicable findings included in our report No. 2014-019.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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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 law<sup>8</sup> 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 June 2018 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.
- Determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in our report No. 2014-019.
- 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 October 2014 through February 2017, and selected District actions taken prior and subsequent thereto.

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<sup>8</sup> Section 11.45(2)(f), Florida Statutes.

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. We also evaluated District controls over employee information technology access privileges to District resources.
- Evaluated the effectiveness of District policies and procedures relating to identification of potential conflicts of interest. We also searched the State of Florida, Division of Corporations, records; statements of financial interests; and District records to determine whether conflicts of interest existed among District employees during the audit period.
- Examined District records to determine whether statutorily required positions had been established for a District Ombudsman, Inspector General, Board Secretary, and Board Treasurer, and whether the duties and responsibilities of these positions were effectively performed. 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 ended 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.
- Examined documentation supporting a total of 12 bank and investment account reconciliations, composed of 3 monthly account reconciliations for 1 bank account and 3 investment accounts to determine whether the reconciliations were timely, complete, and evidenced supervisory review and approval. We also evaluated District procedures for periodically reviewing District banking agreements, the reasonableness of the agreement term, and whether minimum-required balances, interest earnings, and fee and service charge amounts complied with good business practices.
- From the population of 311 electronic funds transfers (EFTs) totaling \$130.6 million during the audit period, examined District records supporting 20 EFTs totaling \$42.8 million to determine whether the EFTs were properly authorized, processed, and documented.
- Evaluated the adequacy of District policies governing investments and examined 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 the respective District funds.

- Examined District tangible personal property (TPP) records for the 2015-16 fiscal year to determine whether the District complied with Chapter 274, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-73, Florida Administrative Code, by conducting a TPP physical inventory and properly accounting for surplus TPP disposals.
- From the population of 11 land acquisitions totaling \$14.8 million during the audit period, examined District records supporting 2 selected land acquisitions totaling \$12.6 million; from the population of 191 conservation easement acquisitions totaling \$20.1 million during the audit period, examined District records supporting 2 selected conservation easements totaling \$6.4 million; and from the population of 14 land dispositions totaling \$8.5 million during the audit period, examined District records supporting 3 selected land dispositions totaling \$7 million. Specifically, we determined 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.
- From the population of 98 construction projects with contract amounts totaling \$100.3 million during the period July 2014 through June 2017, examined District records supporting 13 construction projects with expenditures totaling \$17.6 million to evaluate the District competitive selection process. As applicable, for 3 of these projects, with expenditures totaling \$14.9 million, we:
  - Examined District records to determine whether the engineer, contractor, or design-build firm was properly selected and adequately insured.
  - Evaluated District procedures for issuing change orders to determine whether change orders were approved by the Board or entered into the official Board meeting minutes in accordance with District policies and procedures.
  - Examined District records supporting payments totaling \$7.4 million to construction firms to determine whether District procedures for monitoring payments were adequate and payments were sufficiently supported.

For the other 10 projects, with expenditures totaling \$2.7 million, that individually exceeded \$300,000 and were initiated with a work order authorization, we examined District records to determine whether the project was competitively awarded to the contractor as required by Section 255.20(1), Florida Statutes.

- Evaluated District policies and procedures relating to the administration of mitigation banks to determine the extent to which the policies and procedures provided for the proper establishment of mitigation banks and credits for eligible projects and ensured that mitigation bank credits issued did not exceed the credits available. We also examined District mitigation bank records to determine whether the records were maintained in accordance with applicable laws, rules, and District policies and procedures.
- Evaluated District policies and accounting procedures for assessing and collecting permit fees, taxes, and other revenue sources and for ensuring compliance with Chapter 373 and Sections 201.15 and 218.33, Florida Statutes, and District Rules, Chapter 40C-1, Florida Administrative Code.
- Evaluated District policies and procedures relating to revenue cash collections. Specifically, from the population of 3,261 daily cash receipts totaling \$48.6 million during the audit period, we examined District records for 60 receipts totaling \$155,576 for accuracy of amounts collected, documentation fixing responsibility for initial collections and transfers, and timeliness of bank

deposit. In addition, from the population of 5,041 permits issued with fees totaling \$4.9 million during the audit period, we examined District records for 30 permits with applicable fees totaling \$31,043 to determine whether the fees were collected and permits were issued in accordance with applicable laws, rules, and District policies and procedures.

- Evaluated District policies and procedures for reporting and collecting inter-governmental receivables. From the population of inter-governmental receivables totaling \$12.3 million, we examined District records supporting 15 receivables totaling \$584,889 as of September 30, 2016, to determine whether the receivables were properly and timely recorded, and District collection efforts were effective.
- From the population of salary payments totaling \$120.1 million made to 759 employees during the audit period, examined District records supporting salary payments totaling \$103,873 made to 30 selected employees to determine whether the salary expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
- Examined District personnel records for 30 selected employees to determine whether employee performance evaluations were conducted during the audit period in accordance with District policies and procedures.
- Evaluated policies and procedures for determining employee eligibility for performance-based nonrecurring cash incentive awards. From the population of 214 employees who received nonrecurring cash incentive awards totaling \$506,000 during the 2016-17 fiscal year, we examined District records supporting cash incentive awards totaling \$104,000 to 26 employees and analyzed the methodology for calculating and awarding cash incentive award amounts for compliance with Section 215.425(3), Florida Statutes, and District policies.
- Examined the settlement agreements with 13 employees with severance payments totaling \$82,035 during the audit period to determine whether the severance payments complied with Section 215.425(4), Florida Statutes. Additionally, we examined the employee contracts for the current and former executive directors to determine whether severance pay provisions complied with Section 215.425(4), Florida Statutes.
- Evaluated District policies and procedures for obtaining personnel background screenings. From the population of 75 employees working in the Finance, Human Resources, and Information Technology Departments, we examined District records for 30 employees to determine whether employees in positions of special trust and responsibility had undergone the appropriate background screenings.
- Examined District expenditure documentation to determine whether the expenditures were reasonable, correctly recorded, and adequately documented; for a valid District purpose; properly authorized and approved; for contract deliverables that were clearly defined and verified for receipt by District personnel prior to payment; and in compliance with applicable laws, rules, contract terms, and District policies. From the population of District expenditures totaling \$297.8 million during the audit period, including purchasing card (P-card) expenditures totaling \$13.1 million, we examined District records supporting:
  - 30 selected payments for general expenditures totaling \$2.8 million.
  - 21 contractual agreement payments totaling \$585,862.
  - 30 P-card transactions totaling \$106,139.
- From the population of 529 contracts in effect during the audit period and pursuant to bid awards, examined the District's competitive bidding procedures and related documentation for 30 contracts totaling \$73.7 million to determine whether goods and services were acquired in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.

- Evaluated the District's P-card program to determine whether the program was administered in accordance with District policies and procedures. Specifically:
  - For the population of 204 cardholders as of February 2017, examined District records to determine whether the established card limits were reasonable based upon the cardholders' job responsibilities.
  - From the population of 59 employees issued P-cards during the audit period, examined District records supporting 23 selected employees to determine whether the employees accepted the P-cards and related usage terms.
  - From the population of 27 P-cards reported lost or stolen during the audit period, examined District records for 5 accounts to determine whether P-cards were promptly canceled.
  - From the population of 166 cardholders who separated from District employment during the audit period, examined P-card records for 26 employees to determine whether the P-card was timely canceled upon the cardholder's employment separation.
- From the population of 196 District motor vehicles as of February 28, 2017, examined District records supporting 30 motor vehicles to determine whether the District maintained adequate vehicle-use records and District policies and procedures were followed. From the population of 1,745 overnight-use vehicle assignments during the period from January 2015 through August 2016, we selected 30 overnight-use assignments and reviewed District records to determine whether the assignment was documented and approved in accordance with District policies and procedures. Also, we evaluated vehicle purchase authorization and vehicle disposal processes for compliance with prescribed policies and procedures.
- Examined District records to determine whether the District complied with United States Treasury Regulations regarding the reporting of taxable fringe benefits related to employees' personal use of District vehicles.
- Evaluated District methods for acquiring property, general liability, automobile liability, public official liability, workers' compensation, crime and employee dishonesty, fiduciary liability, pollution liability, and storage tank liability commercial insurance to determine whether the basis for selecting the carrier was documented in District records and conformed to good business practice.
- From the population of 178 District grant awards to local governments and private entities from State and local sources, totaling \$85.5 million during the audit period, examined District records supporting 3 District grant awards totaling \$11.7 million to determine whether expenditures were adequately supported and complied with applicable restrictions imposed by the grant or contract terms.
- 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***

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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

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## St. Johns River Water Management District

Ann B. Shortelle, Ph.D., Executive Director

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4049 Reid Street • P.O. Box 1429 • Palatka, FL 32178-1429 • 386-329-4500  
On the internet at [www.sjrwmd.com](http://www.sjrwmd.com).

December 13, 2018

Ms. Sherill F. Norman, Auditor General  
Claude Denson Pepper Building, G74  
Tallahassee, Florida 32399-1450

Dear Ms. Norman,

This letter provides the District's written responses concerning the list of preliminary and tentative audit findings and recommendations included with your letter to the District received November 28, 2018. The operational audit of the St. Johns River Water Management District resulted in four tentative audit findings. The Findings are addressed herein.

We would like to express our appreciation to the staff of your Jacksonville office and the professional manner in which they conducted our audit.

Sincerely,

John A. Miklos  
Governing Board Chair

Ann B. Shortelle, Ph.D.  
Executive Director

cc: Governing Board Members

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### GOVERNING BOARD

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John A. Miklos, CHAIRMAN  
ORLANDO

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Allan Roberts  
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**Finding 1: District records did not always evidence that the District inspector general complied with applicable statutory requirements.**

**Recommendation:** The District should establish Board policies that require and ensure that the IG performs statutorily required duties and that District IG records document the performance of these duties in accordance with State law and applicable IIA Standards and, where appropriate, GAGAS. Such policies should address:

- The preparation and maintenance of records demonstrating the effective utilization of the IG role. Such records should evidence that the IG maintained an appropriate balance between audit and other accountability activities.
- The receipt of an external quality assurance review within the prescribed timeframe established by the applicable standards.
- The development of long-term audit plans based on the results of appropriate risk assessments.

**Response:** The current Inspector General joined in October of 2017 and has developed a work plan to implement these recommendations. The Inspector General long-term five-year strategic and annual audit plans were approved by the Governing Board on October 9th, 2018. A peer review is planned to be scheduled after completion of the current fiscal year audit plan.

**Finding 2: District management should ensure that State law and District rules and procedures are followed when selecting and contracting with design-build firms, including procedures that require the preparation of a design criteria package upon which design-build firms may prepare proposals or upon which negotiations may be based. In addition, District management should also ensure that a competitive selection process is utilized to procure project subcontractors or document, of record, the Board's determination that direct negotiations with contractors for both contractor and subcontractor services is in the District's best interests.**

**Recommendation:** Recommendation: The District should continue efforts to ensure that the procurement process details the manner, justification, and requirements involving design-build contracts.

**Response:** Design-build is not a typical engineering/construction method utilized by the District, preferring instead to utilize Design-Bid-Build. The Finding relates to a procurement in 2014, which is the only use of design-build since 2004. If this option is exercised in the future, the District will follow applicable statutes and policies.

**Finding 3: As similarly noted in our report No. 2014-019, contrary to State law, the District did not competitively award construction projects individually estimated to cost more than \$300,000.**

**Recommendation:** District management should comply with State law and competitively award each construction project estimated to cost more than \$300,000 or document an allowable exemption for not competitively awarding such projects.

**Response:** On 11-7-2018 the District updated Administrative Directive 411 with the addition of Section 5(3)(c) to include the requirement that "Work orders may not be used for construction

projects described in Section 255.20, F.S., and estimated to cost more than \$300,000, which require a competitive solicitation.”

**Finding 4:** The Board acquired land for conservation purposes with a purchase price of \$11.4 million. Board records indicated that the acquisition would be funded from various resources, including private third-party entity resources totaling \$916,850; however, those resources contributed only \$488,000 without Board authorization for departing from the Board’s original intent.

**Recommendation:** The District should ensure that Board approval is obtained and documented for all real property acquisitions and any changes to the conditions of an acquisition, including any changes to the funding resources used to acquire the property. In addition, for the December 9, 2015, property acquisition, the Board should document in the public records its intent to waive the assignment agreements’ closing contingency provisions.

**Response:** District staff will continue to return to the board for any necessary additional approvals due to unbudgeted cost increases, negative due diligence results, or other material factors, and document the Governing Board’s intent in the public records.