



AUDITOR GENERAL

DAVID W. MARTIN, CPA



FLORIDA KEYS AQUEDUCT AUTHORITY

FOLLOW-UP ON OPERATIONAL AUDIT REPORT NO. 2007-012

SUMMARY

This report provides the results of our follow-up procedures for each of the findings included in report No. 2007-012 and the Executive Director's response thereto. Our follow-up procedures to determine the Florida Keys Aqueduct Authority's progress in addressing the findings and recommendations contained in report No. 2007-012 disclosed that the Authority, as of the completion of our follow-up procedures in July 2008, had adequately addressed 10 of the 18 findings included in that report. The Authority had partially addressed 6 findings and had no opportunity to address 2 findings.

BACKGROUND

The Auditor General is authorized by State law to perform audits of independent special districts in Florida. As directed by the Legislative Auditing Committee, we conducted an operational audit of the Florida Keys Aqueduct Authority for the period October 1, 2004, through November 30, 2005, and selected actions taken prior and subsequent thereto. Pursuant to Section 11.45(2)(l), Florida Statutes, the Auditor General, no later than 18 months after the release of report No. 2007-012 must perform such appropriate follow-up procedures as deemed necessary to determine the Florida Keys Aqueduct Authority's progress in addressing the findings and recommendations contained within that report.

FINDINGS AND RECOMMENDATIONS

Financial Management

Finding No. 1: Administrative Expenses

Previously reported

We disclosed several matters in report No. 2007-012 in which we questioned the public purpose served by incurring certain operating expenses or providing specific benefits to certain Authority employees. The Authority has no funding source for operating purposes, other than user fees. Accordingly, the decision to provide these expenses affects the fees charged water and wastewater users.

We recommended that since the administrative expenses are financed from user fees, the Authority carefully evaluate management practices and public purposes served and, as appropriate, document the level and nature of expenses necessary to operate the Authority.

Results of follow-up procedures

The Authority has adequately addressed this finding. The Authority, subsequent to the release of report No. 2007-012 in August 2006, evaluated the efficiency of certain management practices and the public purposes served by incurring certain expenses, as discussed in the following findings: No. 5, Investment Practices; No. 6, Weekly Payroll Processing; No. 7, Severance Pay; No. 8, Insurance Benefits Upon Retirement; No. 9, Employee Awards

and Banquets; and No. 10, Travel Expense Reimbursements.

Budgetary Controls

Finding No. 2: Budgetary Level of Control

Previously reported

The Board had not established policies and procedures clearly establishing the level of budgetary control for monitoring Authority expenditures. Also, budgetary comparison reports provided to the Board did not include all expense categories.

We recommended that the Board establish policies and procedures clearly setting forth the level of budgetary control for monitoring Authority expenses. We also recommended that the Board ensure that the monthly budgetary reports provided to the Board include a budget-to-actual comparison for all expense categories, including debt service and construction expenses.

Results of follow-up procedures

The Authority has adequately addressed this finding. The Board, at its October 26, 2006, meeting, adopted Resolution No. 07-02, establishing the level of budgetary control at the fund level. The Resolution also provided the Executive Director with the authority to approve expenditures within the operating budget, including expenditures which exceed any line item within the object level by Department, provided the expenditures do not exceed the overall fund amount approved by the Board. The Executive Director was also authorized to transfer funds within object and Department levels established within the overall operating budget. Budget amendments were only required to be presented to the Board when expenditures exceeded approved fund level budgets.

Subsequent to our inquiry, a budgetary comparison schedule of debt service and construction expenses was included with the summary financial information provided to the Board each month, beginning with the Board meeting of April 24, 2008.

Finding No. 3: Budget Preparation

Previously reported

The Authority did not consider all prior year net assets balances in preparing its 2004-05 or 2005-06 fiscal year budgets.

We recommended that the Authority determine the best available estimates of the prior year net assets balances in initial budgets submitted for public consideration and adoption by the Board. In addition, we recommended that the budgets be amended, as necessary, to report the actual net assets available from the prior fiscal year.

Results of follow-up procedures

The Authority has adequately addressed this finding. The Authority considered all estimated prior year net assets balances in the preparation of its 2007-08 fiscal year budget. Subsequent to our inquiry, at its meeting on June 26, 2008, the Board amended its 2007-08 fiscal year budget to show the actual net assets available from the prior fiscal year.

Cash

Finding No. 4: Bank Account Reconciliations

Previously reported

Bank account reconciliations were not always prepared on a timely basis.

We recommended that the Authority improve its procedures to provide for the timely reconciliation of its bank accounts.

Results of follow-up procedures

The Authority has adequately addressed this finding. Our review and testing of bank reconciliations disclosed that bank reconciliations were being prepared and reviewed on a timely basis.

Finding No. 5: Investment Practices

Previously reported

The Authority could have earned additional interest on investment earnings during the 2004-05 fiscal year.

We recommended that the Authority assess the feasibility of investing in other authorized investments offering competitive returns consistent with safety and liquidity requirements as an alternative to money market and repurchase accounts, as market conditions fluctuate.

Results of follow-up procedures

The Authority has adequately addressed this finding. The Authority began investing surplus funds in other authorized investments pursuant to Resolution No. 06-34, adopted by the Board on September 21, 2006.

**Payroll and Personnel
Administration**

Finding No. 6: Weekly Payroll Processing

Previously reported

The Authority could realize cost savings and improved efficiency if it changed its payroll processing from weekly to biweekly or monthly. We noted that in October 2003, Authority staff presented the Board with a bi-weekly pay period proposal for discussion purposes; however, the Board did not change the payroll period.

We recommended that the Board again consider the costs and benefits of weekly versus biweekly or monthly pay periods to determine whether it would be more cost-effective and efficient for the Board to change pay periods.

Results of follow-up procedures

The Authority has adequately addressed this finding. At its meeting on September 21, 2006, the Board unanimously supported the continuance of weekly payroll processing in lieu of switching to biweekly or monthly payrolls. In making this decision,

the Board noted that the results of an employee survey taken on September 26, 2003, indicated that switching to a less frequent payroll was perceived as a hardship to the Authority’s employees.

In response to our inquiry, Authority personnel stated that, although the Board directed its staff to continue weekly payroll processing, other cost saving measures were implemented for payroll processing, such as: 1) direct deposits were mandated for all new hires; 2) direct deposit vouchers were no longer prepared, printed, and distributed since payroll software now allows all employees to view and print payroll, withholding, and leave information, as well as view and request changes to payroll deductions; 3) a new time and attendance system was implemented, thus eliminating data entry; and 4) existing employees were provided information promoting the benefits of direct deposit.

Finding No. 7: Severance Pay

Previously reported

The Authority’s employment agreements with its current and former General Counsel and Executive Director contained provisions for severance pay without documenting in its public records the public purpose served. In addition, the severance pay provisions did not require cost savings to the Authority as a prerequisite to severance pay upon early termination.

We recommended that the Authority review the provisions of current and future employment agreements, including the agreements with the current General Counsel and Executive Director, regarding the benefit to the Authority, and the public purpose served, of providing severance pay for early termination of employment agreements.

Results of follow-up procedures

The Authority had no opportunity to address this finding. At its meeting on September 21, 2006, the Board acknowledged that the employment contracts of the current General Counsel and Executive Director were already in effect and had been reviewed

and that any further employment contracts will be brought before the Board for review. The employment contracts for the General Counsel and Executive Director end on March 27, 2010, and June 26, 2009, respectively. Our review of Board minutes and inquiry of Authority personnel disclosed that, as of May 2008, there were no new or renewed employment contracts subsequent to the release of report No. 2007-012.

Finding No. 8: Insurance Benefits Upon Retirement

Previously reported

The wording of health and life insurance provisions in certain employment agreements, as well as the personnel policy, was insufficient to clearly determine what benefits the eligible employees are entitled to receive, and to ascertain what liability the Authority was agreeing to assume for employees upon retirement.

We recommended that the Authority consult with legal counsel to determine if modification of the employee benefits policy is possible regarding the provision of continuing medical coverage for the employee upon retirement to clearly define the benefits and related liability to the Authority.

Results of follow-up procedures

The Authority has adequately addressed this finding. Our review disclosed that the Authority consulted with its General Counsel regarding possible changes to its employee benefits policy to clearly define those benefits and, as a result, modified its policy to provide certain retirees with the same insurance benefits provided to active employees. The General Counsel noted that the retirees had been placed in the same insurance program as active employees to avoid the risk of having to pay for any benefit gaps, which the General Counsel indicated could be very large.

Finding No. 9: Employee Awards and Banquets

Previously reported

The Authority did not document in its public records the public purpose served, or the legal basis used, in incurring \$49,271 for employee awards and banquets.

We recommended that the Authority incur costs for employee awards and banquets only upon documenting in its records the public purpose served.

Results of follow-up procedures

The Authority has adequately addressed this finding. At its meeting on October 24, 2006, the Board adopted Resolution No. 07-01. The Resolution noted that the Authority adopted a Strategic Plan which included a goal of promoting employee morale to support the objective of retaining employees and that the public purpose served by the Employee Award Programs had been determined, as follows:

- Safety Awards Program. The program encourages employees to practice safe work habits and safe driving, thereby resulting in greater safety to the public on roadways and in the reduction of workers' compensation insurance premiums.
- Service Awards Program and Employee Awards Banquet. The program enhances employee morale, promotes longevity, and reduces turnover, which thereby reduces the cost associated with hiring and training new personnel.
- Blood Drive Incentives Program. The program encourages the donation of critically needed blood within the community.

We were informed by Authority personnel that in lieu of an annual awards banquet the Authority now holds an annual employee meeting during regular working hours, and that the purpose of the meeting is "to review the status of the utility, i.e., its goals and objectives with a motivational speaker to enhance morale and thus increase productivity." Expenses of the meeting, including facilities rental, catered food, speaker fees, and mileage reimbursements for travel to the meeting, are paid by the Authority. No awards

are presented at the annual meeting as they are now presented to employees at regularly scheduled Board meetings.

Our review and testing of expenditures, totaling \$34,071, for the employee awards and annual meeting during the period October 1, 2007, through March 31, 2008, disclosed that such expenditures were made for the purposes contemplated by the Board’s Resolution No. 07-01.

Procurement of Goods and Services

Finding No. 10: Travel Expense Reimbursement

Previously reported

The Authority’s policies and procedures for completing travel vouchers and documenting travel and training expenses could be improved.

We recommended that the Authority require all travel and training expenses, including those paid using a purchasing card, to be included on the travel voucher. Also, we recommended that the Authority modify its travel voucher to provide for the reporting of all expenses directly related to the travel or training event. In doing so, we recommended that provisions be made on the travel voucher to indicate whether the expenses were paid using a purchasing card or by the individual requesting reimbursement; that travelers be required to indicate the time of departure and return so that meals and per diem reimbursements can be verified in accordance with the Authority’s Travel and Business Expense Policy; and that Board members sign the certification included on the travel voucher, thereby attesting to the accuracy of the reimbursement request and the public purpose served by the trip. Finally, we recommended that meal allowances be reduced when a meal is included in a registration fee.

Results of follow-up procedures

The Authority has partially addressed this finding.
 Our review disclosed that the Authority enhanced its Travel and Business Reimbursement Policy and modified its travel voucher, effective August 2006, to

provide for the reporting of all expenses directly related to the travel or training event, and indicate whether the expenses were paid using a purchasing card or by the individual requesting reimbursement. The Policy also provided that travelers shall not be reimbursed for any meal or lodging included in a convention or conference registration fee paid by the Authority.

Our test of travel expense reimbursements disclosed, however, that some improvements were still needed in the preparation of travel vouchers. Board members were not signing the certification on their own travel vouchers as required by the Authority’s Travel and Business Reimbursement Policy, expenses paid using a purchasing card were not shown on 7 of 41 (17 percent) travel vouchers reviewed, the times of departure or return were not recorded on 3 of the travel vouchers reviewed, and travel vouchers were not prepared in 3 instances where purchasing cards were used for travel expenses.

Finding No. 11: Class C Travel Reimbursements

Previously reported

Meal allowances for day travel (Class C travel) were not reported to the Internal Revenue Service (IRS) as taxable wages to the employee, contrary to IRS regulations.

We recommended that the Authority implement procedures ensuring that Class C travel reimbursements are reported to the IRS as taxable wages. Also, we recommended that the Authority consult with IRS to determine what actions, if any, should be taken for Class C travel reimbursements paid but not reported.

Results of follow-up procedures

The Authority has partially addressed this finding.
 In report No. 2007-012, we noted that Authority staff distributed instructions to implement procedures, effective May 1, 2006, to report Class C travel as taxable wages. Our current review disclosed that the Authority enhanced its Travel and Business Reimbursement Policy to ensure that Class C travel is

reported as wages in accordance with IRS regulations. Our test of Class C travel expense reimbursements disclosed that such reimbursements were being reported to the IRS as taxable wages.

However, we were advised by Authority personnel that the IRS was not consulted concerning what actions, if any, should be taken for Class C travel reimbursements previously paid but not reported.

Finding No. 12: Allocation of Costs

Previously reported

Payments, totaling approximately \$160,000, to an engineering firm for water and wastewater system improvements were charged to the wastewater system, with no allocation to the water system for its portion of the charges. Additionally, some indirect costs for administrative support functions were not allocated to the wastewater system.

We recommended that the Authority review the engineering firm charges of \$160,000 and allocate an appropriate portion of the charges that represent work on the water system. We also recommended that the Authority develop policies and procedures for allocating indirect costs to the wastewater system.

Results of follow-up procedures

The Authority has adequately addressed this finding. Our review disclosed that the Authority allocated the expenditures of \$160,000 discussed in report No. 2007-012 between the water and wastewater systems for the 2005-06 fiscal year.

Financial accountability for the operation and construction of the water and wastewater systems were maintained in separate enterprise funds until the 2006-07 fiscal year when the Authority combined the financial accountability for the two systems into one enterprise fund. As a result, the allocation of indirect costs is no longer needed for financial reporting purposes.

Contractual Services

Finding No. 13: Consultant and Attorney Services

Previously reported

Arrangements with consultants and outside attorneys were not acquired through a competitive selection process, and the services to be performed were not documented by a written agreement. Additionally, contracts with, and invoices from, consultants and outside attorneys did not contain specific deliverables or otherwise provide a basis for payments.

We recommended that, although not required to do so by law, sound business practices suggest that the Authority follow a competitive selection process when entering into arrangements with consultants. We also recommended that the Authority develop written agreements for future financial arrangements with consultants and attorneys, documenting specific deliverables and work products and also formally evaluating, at least annually, the effectiveness of these consultants and attorneys prior to renewing the agreements.

Results of follow-up procedures

The Authority has partially addressed this finding. Consultants and law firms utilized by the Authority were selected subsequent to the release of report No. 2007-012 without following a competitive selection process.

The Authority’s Internal Auditor and General Counsel stated that evaluations are made of consultants and law firms prior to contract renewals and are documented as follows:

- The General Counsel, Executive Director, and other staff as considered appropriate, discuss and evaluate the performance of law firms and consultants prior to the Executive Director or General Counsel’s contract renewal recommendations to the Board.
- Board Agenda Item Summary forms which contain contract renewal recommendations to the

Board are initialed by the General Counsel, Executive Director, Department Director Executive, and Internal Auditor.

- Contract renewal discussions during Board meetings may include law firm or consultant past performance, and such discussions would be documented in the Board’s minutes.

The Authority entered into written agreements with eight law firms to provide a variety of legal services. Our review of the attorney contracts disclosed that the contracts generally specified the nature of the services to be performed and the amount of compensation.

The Authority also entered into lump sum consultant agreements with three consultants to provide governmental relations consulting services, which included lobbying and Legislative contacts for the advancement of Authority purposes. Generally, the agreements identified the services to be provided.

- The agreement with one consultant required quarterly written reports or presentations to the Board summarizing the results of work performed and initiatives accomplished. Quarterly written reports or presentations were provided to the Board, as required.
- Agreements with the other two consultants provided that services would include consultation with the Authority through the Executive Director, General Counsel and, as required from time to time, by presentations directly to the Board; however, the agreements did not provide for any specific work products or deliverables, or require written reports summarizing the results of their work. Between August 2006 and March 2008 each of the two consultants made two Legislative update presentations to the Board. Subsequent to our inquiry, one agreement was amended on July 24, 2008, and the other agreement was renewed on June 26, 2008, to include a provision for written quarterly reports.

We were advised by the Authority’s General Counsel that the three consultants provided continuing updated Legislative information to the Authority

through the Executive Director and himself by electronic mail correspondence, telephone conversations, and other written communication (copies of proposed legislation, law summaries, etc.).

Finding No. 14: Competitive Selection of Engineers

Previously reported

The Authority used continuing contracts with engineering firms for projects costing over \$1 million, contrary to Section 287.055, Florida Statutes, which requires a competitive selection process.

We recommended that the Authority establish written policies and procedures to ensure that professional services are obtained pursuant to competitive selection and negotiation when the construction cost or the fee for professional services is estimated to exceed the thresholds specified in Section 287.055, Florida Statutes.

Results of follow-up procedures

The Authority has partially addressed this finding.

Our review disclosed that the Authority did not follow the competitive selection and negotiation procedures required by Section 287.055, Florida Statutes, the Consultants’ Competitive Negotiation Act, when awarding contracts for professional engineering services. Requests For Qualifications were issued and a selection committee was established for evaluating the qualifications of responding firms, ranking the firms based on various qualification criteria, and recommending qualified firms to the Board. The Board-approved engineering firms were placed in a pool from which firms were later selected when proposed construction projects were scheduled to begin. However, Section 287.055(3)(a), Florida Statutes, requires the Authority to publicly announce each occasion when professional services must be purchased for a project, the basic construction cost of which is estimated to exceed \$250,000. Section 287.055(4)(a), Florida Statutes, requires the Authority, for each proposed project, to evaluate current statements of qualifications and performance data on

file, together with those that may be submitted by other firms regarding the proposed project, and to conduct discussions with no fewer than three firms regarding their qualifications, approach to the project, and ability to furnish the required services.

Subsequent to our inquiry, on June 26, 2008, the Board approved competitive selection policy and procedures for the acquisition of professional architectural, engineering, landscape architectural or surveying and mapping services. The policy and procedures provided in part that the Authority shall negotiate a contract with the most qualified firm based on current statements of qualifications, capabilities, adequacy of personnel, past record, experience, whether the firm is a certified minority business enterprise, and such other factors determined by the Authority to be applicable to its particular requirements. Additionally, the policies and procedures required the Executive Director or his designee to prepare written certification that the requirements of the policy had been satisfied.

Follow-up to Executive Director's Response

In his response, the Executive Director stated that the Authority publicly advertises all projects identified in its Capital Improvement Plan when awarding contracts for professional engineering firms and that if a project is not identified in the Capital Improvement Plan, it is advertised in a separate public announcement. Although the Executive Director stated that the Board of Directors has adopted policies and procedures to insure compliance with applicable Florida Statutes, the point of our finding is that such policies and procedures provide for the Board of Directors to select a Board pre-approved engineering firm from a pool when construction projects are scheduled to begin, rather than follow Section 287.055(3)(a), Florida Statutes, which requires the Authority to publicly announce each occasion when professional services must be purchased for a project.

Finding No. 15: Awarding of Wastewater Construction Contracts

Previously reported

The Authority did not consider directly purchasing materials for major construction projects, or awarding bids by major components.

We recommended that the Authority consider implementing procedures that require competitive bid proposals to contain separate costs for materials and labor for construction projects, and to provide for the direct purchase of construction materials whenever it would be more cost effective. Additionally, we recommended that the Authority consider awarding contracts based on the lowest bid by major component, when such components are unrelated sufficiently to the remainder of the project so as not to hinder the timely completion or coordination of the project. We noted that such procedures, if effectively implemented, would enable the Authority to better evaluate bids and could result in cost savings in capital construction projects.

Results of follow-up procedures

The Authority has partially addressed this finding.

Our review disclosed that five wastewater construction contracts entered into subsequent to the release of report No. 2007-012 were awarded based on the lowest bid by major component. However, bid proposals for those contracts were not required to show separate costs for labor and materials. The contracts awarded from those bids, totaling approximately \$30 million, did not provide for the direct purchase of construction materials and equipment. We were advised by Authority personnel that the contractor and three suppliers of equipment for the Big Coppitt Wastewater Treatment Plant construction project (\$10,777,000 contract) verbally agreed to allow the Authority to directly purchase some equipment for the treatment plant.

The Authority did, however, provide for and made direct purchases of construction materials and

equipment in the contracts for two water construction projects. The \$27,327,000 contract for construction of the J. Robert Dean Water Treatment Plant Reverse Osmosis Expansion provided that the Authority could elect to make direct purchases of materials that were greater than \$10,000, and the \$6,348,723 contract for construction of a well at the J. Robert Dean Water Treatment Plant provided the Authority with the option to direct purchase steel casing and fiberglass reinforced pipe for the project.

Finding No. 16: Contract Payments

Previously reported

The Authority overpaid some engineering firms, made a final payment prior to completion of the work, and paid for some charges not included in contracts. Additionally, the Authority paid for some services without the use of competitive bids, contrary to its policies.

We recommended that the Authority enhance its procedures to ensure that payments to vendors are not duplicative and are consistent with approved contract provisions and its purchasing policies and procedures. We also recommended that required competitive bidding procedures be followed or the basis for not utilizing such procedures be documented for all purchases over \$25,000. Additionally, we recommended that the Authority ensure that payments are not made until all services have been performed and adequate supporting documentation has been provided. Finally, we recommended that the Authority seek to recover duplicate payments and overcharges from certain engineering firms, and request documentation for unsupported travel and other expenses paid.

Results of follow-up procedures

The Authority has partially addressed this finding. Our current review disclosed the following:

- Our test of contract payments disclosed that payments to vendors were not duplicative; were consistent with approved contract provisions and the Authority’s purchasing policies and

procedures, including competitive bidding procedures, when required; were not made until work was completed or services performed; and adequate supporting documentation had been provided.

- The Authority recovered overpayments noted in report No. 2007-012, resulting in refunds to the Authority totaling \$21,620.
- The Authority did not request a \$2,226 refund for a duplicate payment, or request documentation for unsupported travel and other expenses that were noted in report No. 2007-012.

Finding No. 17: Substantial and Final Completion Dates

Previously reported

The Authority did not always establish substantial and final completion dates for wastewater projects or document the reasons for delays in meeting established substantial and final completion dates. As a result, the Authority may not have assessed contractors for liquidated damages provided for in their contracts.

We recommended that the Authority enhance its procedures for monitoring and documenting contractor compliance with required substantial and final completion dates, and assess liquidated damages, when appropriate.

Results of follow-up procedures

The Authority has adequately addressed this finding. Our review and inquiries of Authority personnel disclosed that procedures were enhanced for monitoring and documenting required substantial and final completion dates, as follows:

- A project workload/milestone spreadsheet was developed to help capture critical dates, including project completions.
- Project Managers met with the Engineering Department Director and Assistant Director every two weeks for reviewing project status and were

responsible to update workload sheets for their projects, which were then consolidated and summarized.

- Workload was delineated by region and function. Water and wastewater projects were managed by the engineering department.
- A standard Substantial Completion form and Final Completion form was used on all construction projects to document contract timelines.

The Authority completed two wastewater construction projects subsequent to the release of report No. 2007-012. Both projects were completed prior to the required completion dates as documented by certificates of completion on file in the Authority’s records.

Other

Finding No. 18: Conflict of Interest

Previously reported

During the 2003 calendar year the Authority utilized a law firm that was affiliated with its General Counsel, an employee, thus violating Section 112.313(3), Florida Statutes. On December 22, 2005, the Authority terminated the General Counsel’s contract effective January 27, 2006, thereby resolving this conflict of interest.

We recommended that the Authority ensure that future employment agreements are free of provisions that violate Section 112.313(3), Florida Statutes, resulting in potential conflicts of interest.

Results of follow-up procedures

The Authority had no opportunity to address this finding. Our current review disclosed there have been no new employment contracts or employment contract renewals since the release of our report No. 2007-012.

SCOPE AND OBJECTIVES

The scope of this project included selected actions and transactions taken subsequent to August 2006 to determine the extent to which the Authority has corrected, or is in the process of correcting, deficiencies disclosed in our report No. 2007-012.

METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent Authority records, inquiry of Authority personnel, and observation of procedures in practice. This follow-up review was conducted in accordance with applicable Generally Accepted Government Auditing Standards. These standards require that we plan and perform the follow-up review 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.

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 follow-up procedures regarding findings and recommendations included in our report No. 2007-012, operational audit of the Florida Keys Aqueduct Authority for the period October 1, 2004, through November 30, 2005, and selected actions taken prior and subsequent thereto.

David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

The Executive Director's responses to our findings are included in this report as Appendix A.

This review was coordinated by James A. Bell, CPA, and supervised by Michael J. Gomez, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, via e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone (850 487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

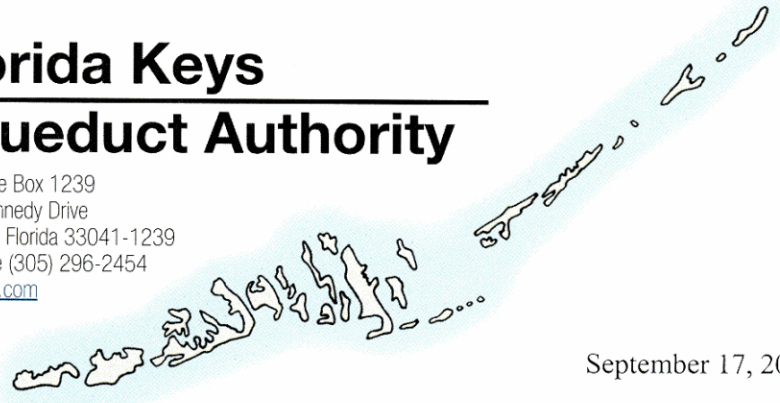
THIS PAGE LEFT INTENTIONALLY BLANK.

APPENDIX A
MANAGEMENT RESPONSE



Florida Keys Aqueduct Authority

Post Office Box 1239
1100 Kennedy Drive
Key West, Florida 33041-1239
Telephone (305) 296-2454
www.fkaa.com



J. Robert Dean
Chairman
Key West

Mary L. Rice
Vice-Chairman
Marathon

Elena Z. Herrera
Secretary/Treasurer
Rockland Key

Rose M. Dell
Big Pine Key

David C. Ritz
Key Largo

James C. Reynolds
Executive Director

September 17, 2008

David W. Martin
Auditor General
State of Florida
G-74 Claude Pepper Building
111 West Madison Street
Tallahassee, Fl. 32399-1450

Dear Mr. Martin:

The Board of Directors of the Florida Keys Aqueduct Authority received the draft report which presented the results of the Auditor General’s follow-up procedures to determine the Authority’s progress in addressing the findings and recommendations included in its report No. 2007-012 – Operational Audit of the Florida Keys Aqueduct Authority for the period October 1, 2004, through November30, 2005, and selected actions taken prior and subsequent thereto. The Authority has reviewed the draft report. Please find enclosed the Authority’s written comments in response to the follow-up draft report.

Response No. 1 – Administrative Expenses

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 2 - Budgetary Level of Control

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 3 - Budget Preparation

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 4 - Bank Account Reconciliations

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 5 - Investment Practices

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 6 - Weekly Payroll Processing

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 7 - Severance Pay

The Auditor General has found that the Authority had no opportunity to address this finding. The Authority will address this finding the next time it considers professional employee contracts.

Response No. 8 - Insurance Benefits Upon Retirement

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 9 - Employee Awards and Benefits

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 10 - Travel Expense Requirements

The Auditor General has found that the Authority has partially addressed this finding. The Authority has put in place procedures that insure that all Board Members and staff sign their respective certifications on the travel vouchers, all use of purchasing cards is documented on the travel vouchers and times of departures and returns are properly noted on travel vouchers before payment is made.

Response No. 11 - Class C Travel Reimbursement

The Auditor General has found that the Authority has partially addressed this finding. The Authority, upon being advised of this IRS requirement, now reports all Class C Travel Expense requirements to the IRS.

Response No. 12 - Allocation of Costs

The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 13 - Consultant and Attorney Services

The Auditor General has found that the Authority has partially addressed this finding. The Authority's contracts with all governmental consultants now require that specific work products or deliverables be submitted to the Board of Directors on at least a quarterly basis.

Response No. 14 - Competitive Selection of Engineers

The Auditor General has found that the Authority has partially addressed this finding. The Authority publically advertises all projects identified in its Capital Improvement Plan when awarding contracts for professional engineering firms. If a project is not identified in the Capital Improvement Plan it is advertised in a separate public announcement. The Board of Directors has adopted policies and procedures to insure compliance with applicable Florida Statutes.

Response No. 15 - Awarding of Wastewater Construction Contracts

The Auditor General has found that the Authority has partially addressed this finding. The Authority has put in place procedures to insure that all construction contracts provide provisions for the direct purchases of construction materials, when it is in the best interest of the Authority.

Response No. 16 - Contract Payments

The Auditor General has found that the Authority has partially addressed this finding. The Authority is seeking to recover a \$2,226.00 refund for a duplicate payment. Internal procedures are in place to insure that no payments are made without the proper documentation.

Response No. 17 - Substantial and Final Completion Dates

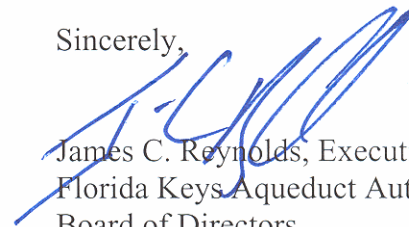
The Auditor General has found that the Authority has adequately addressed this finding.

Response No. 18 - Conflict of Interest

The Auditor General has found that the Authority has had no opportunity to address this finding. The Authority on December 22, 2005 terminated the General Counsel's contract effective January 27, 2006, thereby resolving this conflict of interest. There are no current contracted employees affiliated with any outside professional firms.

On behalf of the Florida Keys Aqueduct Authority Board and Staff, I would like to take this opportunity to thank you and your Staff for the professionalism exhibited in conducting the initial audit and this follow-up draft report.

Sincerely,



James C. Reynolds, Executive Director
Florida Keys Aqueduct Authority
Board of Directors