

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-016
September 2015

**NORTHWEST FLORIDA WATER
MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA
Auditor General

Board Members and Executive Director

Northwest Florida Water Management District Board Members and Executive Directors who served from October 2013 through December 2014 are listed below:

George Roberts, Chair
Jerry Pate, Vice Chair
John W. Alter
Gus Andrews
Stephanie H. Boyd to 8-28-2014 ^a
Gary Clark
Jon Costello
Nick Patronis
Bo Spring

Brett Cyphers, Executive Director from 12-27-2014
Jon Steverson, Executive Director to 12-26-2014

^a Board member position remained vacant from 8-29-2014 through 12-31-2014.

The team leader was Shane L. Herman, CPA, and the audit was supervised by Michael J. Gomez, CPA.

Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 412-2881.

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NORTHWEST FLORIDA WATER MANAGEMENT DISTRICT

SUMMARY

Our operational audit of the Northwest Florida Water Management District (District) disclosed the following:

General Management Controls

Finding 1: District procedures did not provide an appropriate separation of duties for the permit fee collection and recordkeeping functions or establish other controls to compensate for this weakness.

Personnel and Payroll Administration

Finding 2: The District made a \$20,662 extra compensation payment to an employee, contrary to law. Also, the Board did not, by resolution or other means, approve November 2013 and November 2014 bonuses totaling \$259,000 and employees were not notified of the prospective bonuses before the evaluation period on which the bonuses were paid.

Finding 3: District procedures for the employee performance evaluation process could be enhanced.

Contracts

Finding 4: Two members of management were on the District's audit committee, contrary to Government Finance Officers Association guidance. Also, contrary to State law, the Board selected a firm for audit services that was not the highest-ranked qualified firm and District records did not evidence the basis for selecting the firm.

Tangible Personal Property

Finding 5: The District did not perform physical inventories of tangible personal property for the 2011-12, 2012-13, and 2013-14 fiscal years.

Finding 6: District controls over motor vehicle usage and maintenance could be enhanced.

BACKGROUND

Established in 1972, the Northwest Florida Water Management 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 Water Resources Act of 1972 and includes Escambia, Santa Rosa, Okaloosa, Walton, Holmes, Washington, Bay, Jackson, Calhoun, Gulf, Gadsden, Liberty, Franklin, Leon, Wakulla, and Jefferson counties. Governance lies with a nine-member board consisting of one representative for each of the District's five hydrologic basins and four members that serve at-large. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate.

FINDINGS AND RECOMMENDATIONS

GENERAL MANAGEMENT CONTROLS

Finding 1: Permit Fees

District personnel collect and deposit fees for various types of permits such as permits for work within wetlands and surface waters, agricultural irrigation, construction or repair of dams, and wells. During the period October 2013 through December 2014, the District recorded permit fee collections totaling \$418,395, including \$56,045 received at its headquarters office in Havana and other amounts received in the Crestview and Tallahassee field offices.

At the headquarters office, Regulatory Specialists received permit fee collections and transferred the collections, along with a transmittal memorandum, to an Accountant. The Accountant reconciled the collections to the amount in the memorandum, signed the memorandum, occasionally prepared the bank deposit slip, and transferred the collections to another employee for deposit. The Accountant also recorded bank deposits in the District's accounting system and performed bank account reconciliations, and District procedures did not provide controls to compensate for this inappropriate separation of duties. A procedure requiring an employee independent of the collection process to reconcile deposits recorded in the accounting system to permit fees would somewhat compensate for the inappropriate separation of duties.

Our review and tests did not disclose any errors or fraud associated with this control deficiency; however, given the inappropriate separation of duties and lack of compensating controls, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should enhance procedures to separate the permit fee collection and recordkeeping functions to the extent possible with existing personnel or provide for compensating controls such as independent reconciliations of deposits recorded to permit fees.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding 2: Extra Compensation

State law¹ prohibits the District from making extra compensation payments to employees after services have been rendered. State law authorizes employee bonuses based on established work performance standards and evaluation processes that consider all employees, and provides that all employees must be notified of prospective bonuses before the evaluation period on which bonuses are based. In addition, the *District's Operations and Procedures Manual (Manual)* provides that the Board may, by resolution, establish a compensation program to reward employees whose performance exceeds standards.

The District made a \$20,662 extra compensation payment in July 2014 to an employee. District personnel indicated that the payment represented the additional amount the District would have

¹ Section 215.425, Florida Statutes.

contributed to the Florida Retirement System (FRS) for the 2013-14 fiscal year had the District reported the employee in the FRS senior management service class (SMSC) instead of the FRS regular class. Because the District had reached the FRS limit on the number of SMSC positions, the District did not report the employee in a SMSC position. However, since this extra compensation payment was made after services had been rendered by the employee, the payment did not comply with State law.

Further, the District established a bonus program based on work performance standards and evaluation processes that considered all employees and, in November 2013 and November 2014, paid bonuses totaling \$259,000. However, contrary to the *Manual*, the Board did not, by resolution or other means, approve the bonus program, nor did the District comply with State law by notifying employees of the prospective bonuses before the evaluation period on which bonuses were based. Without Board approval of the program and, absent timely notification of employees of prospective bonuses, the Board may not agree with the basis for, or amount of, bonuses awarded, and employees may not understand how their performance could impact their eligibility to receive bonuses.

Recommendation: The District should take appropriate action to recover the \$20,662 extra compensation payment from the employee. Also, the District should enhance procedures to ensure that bonus programs are approved by Board resolution and that employees are notified of prospective bonuses before the evaluation period on which bonuses are based.

Finding 3: Employee Performance Evaluations

Section 9.12.2 of the *Manual* requires that annual employee performance evaluations be conducted by the employee's immediate supervisor and reviewed by the Division Director. Also, for new hires and promoted, demoted, or reassigned employees, performance evaluations must be performed within 6 months of the respective personnel actions.

As of January 2015, the District had 101 employees. Our test of personnel records for 15 employees disclosed that 1 employee did not receive an annual performance evaluation because, according to District personnel, senior management was in transition and the employee had no direct supervisor. Our test also disclosed 2 new employees who, because of an oversight, did not receive performance evaluations within 6 months after the employees' hire dates. Subsequent to our audit inquiry, the District performed a six-month performance evaluation for 1 of the 2 employees, more than 3 months late. Timely conducted performance evaluations are important management tools that inform employees of their accomplishments, shortcomings, training needs, and needed improvements and also help management make and support personnel decisions.

Recommendation: The District should enhance procedures to ensure performance evaluations are timely completed as required.

Finding 4: Auditor Selection

Pursuant to State law,² the District must provide for an annual financial audit by a certified public accountant. Such audits give assurance as to the reliability and completeness of financial statements; consider internal control over financial reporting; and provide the results of tests of compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on District financial statement amounts. Consequently, to ensure a quality audit, it is important for entities to use an adequate auditor procurement process.

Audit Committee. The District must select its financial auditor using the procedures prescribed in State law.³ State law⁴ requires the District to establish an audit committee to assist in the selection of an auditor and specifies the responsibilities of the audit committee.

In its 2006 *Audit Committees—An Elected Official’s Guide (Guide)*, the Government Finance Officers Association recommends that all audit committee members be members of the governing body because, among other reasons, one of the core responsibilities of the Legislative Branch of government is to oversee the Executive Branch (including financial management) and a core responsibility cannot be delegated. To ensure the audit committee’s independence and effectiveness, the *Guide* provides that no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as an audit committee member. The *Guide* also notes that a key duty of an audit committee is to provide a forum in which independent auditors can candidly discuss audit-related matters with Board members apart from management.

In September 2013, the Board established an audit committee to select an auditor to conduct the District’s 2012-13 fiscal year financial audit. While the audit committee included three Board members, it also included the District’s Director of Administration and Bureau Chief of Finance and Accounting (members of management). Because the audit committee contained two members of management, the committee’s effectiveness may have been limited.

Audit Firm Selection. State law⁵ requires that the governing board select the highest-ranked qualified firm or document in its public records the reason for not selecting the firm if compensation is one of the factors used in evaluating auditor proposals. Although the audit committee used compensation as one factor in evaluating audit proposals, the Board did not award the audit services contract to the highest-ranked qualified firm or document the basis for not selecting that firm. In response to our audit inquiry, District personnel indicated that the primary reason for not selecting the highest-ranked qualified firm was to change auditors and, since the highest-ranked firm had been the District’s auditing firm for several years, the second highest-ranked firm was selected. However, the District did not document this reason in the procurement records. Documenting the basis for awarding contracts to firms that were not

² Section 218.39, Florida Statutes.

³ Section 218.391, Florida Statutes.

⁴ Sections 218.391(2) and (3), Florida Statutes.

⁵ Section 218.391(4)(b), Florida Statutes.

ranked highest provides evidence of Board decisions and assurance that the selection process was fair, equitable, and economical.

Recommendation: The District should revise the audit committee membership to ensure that members of management are excluded. Additionally, the District should enter into its public records the basis for not selecting the highest-ranked qualified firm for audit services, as required by law.

TANGIBLE PERSONAL PROPERTY

Finding 5: Inventory of Tangible Personal Property

State law⁶ and Florida Department of Financial Services rules⁷ require that tangible personal property (TPP)⁸ in District custody be inventoried annually and that the inventory results be compared to the property records and all discrepancies reconciled. All property items found during the inventory must be included in the inventory records and any items not located must be promptly reported to the property custodian to cause a thorough investigation to be made. In addition, based on the results of the investigation, the District is required to file a report with the appropriate law enforcement agency if items are not located.

The District reported TPP with costs, net of accumulated depreciation, totaling \$1,254,244 in its financial records at September 30, 2014. However, the District did not perform an annual physical inventory of TPP for the 2011-12, 2012-13, and 2013-14 fiscal years because, according to District personnel, the District was in the process of implementing a new inventory system. Absent properly performed TPP physical inventory procedures, District management's assurances regarding the proper accountability for and safeguarding of District assets is limited.

Recommendation: The District should improve procedures to ensure that physical inventories of TPP are timely performed and that the inventory results are appropriately reconciled to subsidiary property records. In addition, discrepancies identified by the reconciliation process should be thoroughly investigated and resolved and, as appropriate, reports of missing property should be timely filed with the appropriate law enforcement agencies.

Finding 6: Motor Vehicle Usage and Maintenance

As of December 31, 2014, the District maintained 47 motor vehicles and 32 watercraft and other equipment for use by employees while conducting official business. Chapter 7 of the *Manual*, states that motor vehicles, watercraft, and equipment represent a substantial investment to the District, and that years of service can be extended when the assets are properly used and maintained.

⁶ Chapter 274, Florida Statutes.

⁷ Florida Department of Financial Services Rule 69I-73, Florida Administrative Code.

⁸ TPP means fixtures and other tangible personal property of a nonconsumable nature with a value or cost of \$1,000 or more and a projected useful life of 1 year or more.

As part of our audit, we reviewed District policies and procedures regarding motor vehicles, examined related District records, and evaluated motor vehicle maintenance practices. Our audit procedures disclosed that:

- The Board had not adopted a motor vehicle use policy for assigning vehicles to employees. District personnel indicated that employees who were assigned a vehicle to use overnight were to identify their vehicle use on their time sheets. However, the District had not established controls to identify employees who use vehicles overnight but do not identify such overnight use on their time sheets. Our review of all vehicle usage logs for 5 months disclosed that, for three employees who used a motor vehicle overnight, one employee did not identify such usage on his time sheet. It is important that the District appropriately account for employee use of District vehicles as Federal law⁹ requires fringe benefits, including use of employer-provided vehicles, to be reported in employee income for tax purposes. In addition, a vehicle use policy would establish management's intent for the use of these vehicles.
- Section 7.2.5 of the *Manual* requires motor vehicle users to complete a vehicle log by noting the date, driver, beginning and ending mileage, and comments regarding fuel purchases. However, the *Manual* did not require supervisory approval for vehicle use or periodic review of vehicle logs by District management. Our review of vehicle logs disclosed that, although the District's Facilities Manager reviewed the logs monthly, no supervisory approval of vehicle use was included since it was not required by the *Manual*. Supervisory approval provides a record of management's oversight for vehicle usage. Including this requirement in the *Manual*, along with periodic reviews of vehicle logs, strengthens internal control over vehicle usage.
- Section 7.4 of the *Manual* provides detailed guidance for the maintenance and upkeep of motor vehicles in the District headquarters motor pool. However, for the various non-motor pool vehicles in the field and branch offices, the *Manual* stated that maintenance was the responsibility of users but did not provide guidance on how the maintenance was to be accomplished. Our review of vehicle maintenance practices in the field and branch offices disclosed that some offices followed the manufacturer's recommended maintenance intervals for newer vehicles, while other offices serviced their vehicles on an as-needed basis. Clearly communicated employee guidance on preventative maintenance for all District vehicles is necessary to help minimize maintenance and repair costs.
- The *Manual* did not establish procedures for accounting for or monitoring motor vehicle maintenance expenses, such as costs of oil and tire changes, or major repair costs. The District's Facilities Manager maintained vehicle records for maintenance and repair expenses by filing all related invoices and purchase orders in a file folder, by calendar quarter. Because invoices and purchase orders were filed in this manner for all vehicles, a record of repairs and maintenance for each vehicle was not readily available. Consistent and complete records of vehicle expenses that are easily accessible for each vehicle assists in determining when various maintenance thresholds are met and in making vehicle replacement decisions.

In March 2015 and subsequent to our audit inquiries, the Board approved a new *Manual* that included procedures to correct the deficiencies discussed above. A similar finding was noted in our report No. 2013-006.

Recommendation: The District should continue efforts to ensure management approval of vehicle assignments, supervisory approval of vehicle logs, guidance for preventative maintenance of assets is consistently followed, and repair and maintenance expenses for each vehicle are appropriately documented and monitored.

⁹ Title 26, Section 1.61-21, Code of Federal Regulations.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2013-006.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2015 to April 2015 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.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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 taken corrective action for findings, as appropriate, included in report No. 2013-006.
- Identify, pursuant to Section 11.45(7)(h), Florida Statutes, statutory and fiscal changes that may be included in the audit report or subsequently recommended to the Legislature.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included selection and examinations of various records and transactions during the period October 2013 through December 2014, and selected actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination. Specifically, we:

- Reviewed the duties and responsibilities administratively assigned to the District, and examined and reviewed documentation such as organization charts and minutes of governing board meetings.
- Determined whether the District had written policies and procedures in place for major District functions.
- Obtained the District's approved budget for the prior and current fiscal years and reviewed applicable policies and procedures for compliance with requirements established in law.
- Reviewed the physical security of cash collection points at the Crestview, Havana, and Tallahassee offices, and determined whether established policies and procedures were being followed. Also, reviewed bank account reconciliations for completeness and supervisory approval.
- Evaluated the adequacy of District policies governing investments and examined investment activity to determine District compliance with applicable laws, ordinances, bond resolutions, and other guidelines.
- Tested 15 of 134 personnel records to determine whether employee performance evaluations were conducted in accordance with District policies and procedures.
- Evaluated District tangible personal property controls relative to taking an annual physical inventory and disposing of surplus property to determine compliance with applicable laws and rules. Also, selected ten expenditures (each less than \$1,000) for the acquisition of sensitive or attractive property items,¹⁰ physically observed the existence of the property items, and verified that the items were recorded in District property records.
- Reviewed District policies and procedures for assessing and collecting water permit fees, taxes, and other revenue sources to evaluate the established revenue controls and to determine the extent to which the policies and procedures promoted compliance with applicable provisions of law. Also, tested 20 of 369 daily cash receipts for accuracy of amounts collected and timeliness of bank deposit.

¹⁰ By nature of the portability, adaptability for personal use, or data storage capabilities, sensitive or attractive items, such as electronic and technology equipment, are more susceptible to loss and theft.

- Tested salary payments totaling \$30,623 and made to 15 of 134 employees to determine whether salary expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
- Tested grant payments totaling \$471,638 relative to 12 of 49 grant agreements and reviewed documentation to determine whether grant expenditures were made in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Tested contractual service payments totaling \$880,420 relative to 15 of 133 contracts and reviewed documentation to determine whether expenditures were made in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Evaluated District policies and procedures and examined applicable procurement documents to determine whether the District hired a certified public accountant to provide for an annual financial audit in accordance with applicable laws and other guidelines.
- Evaluated the methods used for acquiring commercial insurance to determine whether the basis for selecting the carrier was documented in District records and conformed to good business practice.
- Reviewed District policies and procedures to determine whether the District limited the use of, and documented the level of service for, wireless communication devices. Tested 5 of 15 invoices for compliance with contract terms.
- Evaluated the adequacy of District motor vehicle policies and procedures, determined whether adequate motor vehicle assignment, utilization, and maintenance records were maintained, and reviewed selected records to determine whether District policies and procedures were followed.
- 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 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

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each water management district on a periodic basis. 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



Northwest Florida Water Management District

81 Water Management Drive, Havana, Florida 32333-4712
(U.S. Highway 90, 10 miles west of Tallahassee)

Phone: (850) 539-5999 • Fax: (850) 539-2777

Brett J. Cyphers
Executive Director

Submitted to: flaudgen_audrpt_LG@aud.state.fl.us

September 8, 2015

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

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, below are the Northwest Florida Water Management District's responses to the preliminary and tentative audit findings and recommendations. The District concurs with the results of the operational audit and has already implemented steps to apply corrective actions that will preclude a recurrence of these findings.

Audit Finding 1: Permit Fees. District procedures did not provide an appropriate separation of duties for the permit fee collection and recordkeeping functions or establish other controls to compensate for this weakness.

Audit Recommendation: The District should enhance procedures to separate the permit fee collection and recordkeeping functions to the extent possible with existing personnel or provide for compensating controls such as independent reconciliations of deposits recorded to permit fees.

District Response: The District will review existing personnel duties to determine the feasibility of further separating the permit fee collection and recordkeeping functions. However, at a minimum, the Bureau of Finance and Accounting (Accounting) will conduct an independent reconciliation of deposits recorded to permit fees on a monthly basis. Queries from the two databases that log permit fees (environmental resource permits and water use permits in one database and well construction permits in another database) will be system generated and sent directly to the Accounting Bureau Chief. The queried reports will be compared to the deposits to ensure monies received have been accurately accounted for and deposited. Reports have been prepared and reconciliation will begin after the month-end closing of August 2015.

GEORGE ROBERTS
Chair
Panama City

JERRY PATE
Vice Chair
Pensacola

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Secretary-Treasurer
Malone

GUS ANDREWS
DeFuniak Springs

JON COSTELLO
Tallahassee

MARC DUNBAR
Tallahassee

TED EVERETT
Chipley

NICK PATRONIS
Panama City Beach

BO SPRING
Port St. Joe

Audit Finding 2: Extra Compensation. The District made a \$20,662 extra compensation payment to an employee, contrary to law. Also, the Board did not by resolution or other means approve November 2013 and November 2014 bonuses totaling \$259,000 and employees were not notified of the prospective bonuses before the evaluation period on which the bonuses were paid.

Audit Recommendation: The District should take appropriate action to recover the \$20,662 extra compensation payment from the employee. Also, the District should enhance procedures to ensure that bonus programs are approved by Board resolution and that employees are notified of prospective bonuses before the evaluation period on which bonuses are based.

District Response: The District and employee have determined a payroll deduction schedule to pay back the \$20,662 or to recover the amount in full upon separation, whichever comes first.

Further, at the scheduled Governing Board meeting on September 10, 2015, staff will recommend the Governing Board adopt a resolution:

- To approve the provision of an annual bonus plan for employees and direct and delegate authority to the Executive Director to incorporate into the District's internal policies and procedures manual the scheme by which an annual bonus will be implemented, pursuant to s. 215.425, F.S.
- That due to contingency of funding, changes in law, and necessary operational adjustments as identified by the Executive Director which may warrant a change to the manual's evaluation and bonus processes, the Governing Board should authorize the Executive Director to make exceptions to the manual and implement changes in accordance with Florida statutes.

Upon adoption of the resolution and the Fiscal Year (FY) 2015-2016 Tentative Budget, the District will revise internal policies and procedures on the annual bonus plan and provide an exception to this plan for the FY 2015-2016 bonus scheme. The District intends to continue paying annual bonuses each November, however, to comply with timely notification of bonuses, the Executive Director plans to make an exception to the manual for FY 2015-2016 to include two six-month performance reviews. The first, with a review period of 10/1/2015 to 3/31/2016, will be the evaluation period on which the bonus paid in FY 2015-2016 will be based.

Audit Finding 3: Employee Performance Evaluations. District procedures for the employee performance evaluation process could be enhanced. (Finding addresses timely completion of evaluations.)

Audit Recommendation: The District should enhance procedures to ensure performance evaluations are timely completed as required.

District Response: The District has drafted text to incorporate into the internal policies and procedures manual to improve on the timely completion of six month probationary and annual performance evaluations. The following procedures are scheduled to be effective 10/1/2015:

- On the first day of employment or demotion, the Human Resources Administrator (HRA) schedules a meeting with the employee's manager to be held within five days of the six-month probationary due date, for the purpose of reviewing the probationary evaluation.
- If the probationary evaluation is not completed within five days of the due date, the HRA notifies the Division Director so he/she can work with the manager to complete the evaluation before the end of the six month probationary due date.

- On a monthly basis, if any probationary evaluations are not submitted timely, the HRA submits a report of outstanding probationary evaluations to the Executive Director (ED) for resolution.
- Annual performance evaluations are required to be completed and submitted to the HRA within the timeframe identified in the annual employee notification. The HRA notifies the ED and Division Directors within five days of the submittal due date of any outstanding annual evaluations not yet received for their resolution.

Audit Finding 4: Auditor Selection. Two members of management were on the District's audit committee, contrary to Government Finance Officers Association guidance. Also, contrary to State law, the Board selected a firm for audit services that was not the highest-ranked qualified firm and District records did not evidence the basis for selecting the firm.

Audit Recommendation: The District should revise the audit committee membership to ensure that members of management are excluded. Additionally, the District should enter into its public records the basis for not selecting the highest-ranked qualified firm for audit services, as required by law.

District Response: During the next solicitation for a financial auditor, District staff will recommend Board approval of an audit committee that follows the Government Finance Officers Association best practices for audit committee membership. This means membership will exclude District staff and consist only of Board members, a minimum of three. The audit committee is to be provided access to the services of at least one financial expert, which can be either a committee member or an outside party engaged by the committee for this purpose.

District staff will also ensure that Board minutes properly reflect the basis for selecting future financial auditors.

Audit Finding 5: Inventory of Tangible Personal Property (TPP). The District did not perform physical inventories of tangible personal property for the 2011-12, 2012-13, and 2013-14 fiscal years.

Audit Recommendation: The District should improve procedures to ensure that physical inventories of TPP are timely performed and that the inventory results are appropriately reconciled to subsidiary property records. In addition, discrepancies identified by the reconciliation process should be thoroughly investigated and resolved and, as appropriate, reports of missing property should be timely filed with the appropriate law enforcement agencies.

District Response: As of July 15, 2015, the District completed the latest inventory of District items and successfully converted to a new inventory software system (WASP). This included for the first time, the tagging and documenting of attractive items, those less than \$1,000 (e.g., computer monitors, printers, and cameras). Over 2,200 inventoried items have been retagged with new bar coded tags. Each item's location and assignment have been updated in WASP.

The District began the FY 2014-2015 annual inventory the week of 8/24/2015. Physical inventory is to be completed by 9/11/2015 so that reconciliation between accounting records and TPP records can be completed by the end of September.

The District will ensure that an annual inventory is completed each year in accordance with policies and procedures. Following completion of the annual inventory process, reconciliation will be performed to ensure that the District's financial records agree with the TPP records.

Audit Finding 6: Motor Vehicle Usage and Maintenance. District controls over motor vehicle usage and maintenance could be enhanced. (Findings identify no motor vehicle use policy for assigning vehicles, no controls

September 8, 2015

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for overnight use of vehicles, no procedure for vehicle use approval or periodic management review of daily vehicle use logs, no guidance on vehicle maintenance for vehicles used by field office staff, and no procedures for monitoring vehicle maintenance expenses or major repair costs.)

Audit Recommendation: The District should continue efforts to ensure management approval of vehicle assignments, supervisory approval or periodic review of daily vehicle use logs, guidance for preventative maintenance of assets is consistently followed, and repair and maintenance expenses for each vehicle are appropriately documented and monitored. (Findings acknowledge that, “in March 2015 and subsequent to our audit inquiries, the Board approved a new Manual that included procedures to correct the deficiencies discussed above.”)

District Response: Prior to the Governing Board approving the District’s revised internal policies and procedures manual in March 2015, the manual did not address the items as stated in the Auditor General findings. The latest version contains a more comprehensive vehicle use policy. Specifically, text has been added to address:

- Approval process for motor pool vehicles for all employees, special use assigned vehicles for specific employees, and division-assigned non-motor pool vehicles.
- Supervisor use of an overnight approval log to compare to employee timesheets where overnight use of a vehicle is recorded.
- Quarterly review of daily vehicle use logs by supervisors, which also notes overnight use of a vehicle.
- Tracking report to be used by the District’s Facility Superintendent to coordinate and initiate all scheduled services of all vehicles.
- Collection of all maintenance and repair receipts by the District’s Facility Superintendent.

The District will continue to improve on its use of software purchased in 2014 that provides an automated service maintenance tool and global positioning system. In particular, weekly emails are generated and sent to management that report when an employee took home a vehicle overnight using the GPS device equipped in each District vehicle. The email also goes to Accounting to independently verify an employee is reporting overnight use of a vehicle on the timesheet.

The Northwest Florida Water Management District appreciates the professionalism displayed by your staff throughout the audit process. If you have any questions or if we can assist you with providing additional information, please do not hesitate to contact Wendy Dugan, Division of Administration Director, or Amanda Bedenbaugh, Accounting Bureau Chief, at (850)539-5999.

Sincerely,



Brett J. Cyphers
Executive Director