

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-215
June 2017

SUWANNEE RIVER WATER MANAGEMENT DISTRICT



Sherrill F. Norman, CPA
Auditor General

Board Members and Executive Director

During the period October 2014 through March 2016, the following individuals served as Suwannee River Water Management District Board Members and Executive Director:

Board Members

Donald J. Quincey, Jr., Chairman
Alphonas Alexander, Vice Chairman
Virginia H. Johns, Secretary/Treasurer from April 14, 2015^a
Kevin W. Brown
Dr. George M. Cole to March 1, 2015^b
Donald Ray Curtis III to March 1, 2015, Secretary/Treasurer^{a, b}
Gary F. Jones
Virginia Sanchez
Richard Schwab from April 13, 2015^b
Bradley Williams from April 13, 2015
Guy N. Williams to August 19, 2015^c

Executive Director

Noah Valenstein from October 13, 2015
Carlos Herd, Interim, from May 14, 2015, to October 12, 2015
Dr. Ann B. Shortelle to May 13, 2015

^a The Secretary/Treasurer position was vacant from March 2, 2015, to April 13, 2015.

^b The Board Member position was vacant from March 2, 2015, to April 12, 2015.

^c The Board Member position remained vacant from August 20, 2015.

The audit was supervised by Glenda K. Hart, CPA.

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

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SUWANNEE RIVER WATER MANAGEMENT DISTRICT

SUMMARY

This operational audit of the Suwannee 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. 2014-129. Our operational audit disclosed the following:

Finding 1: The District had not established procedures to ensure that the use of restricted resources was appropriately authorized and monitored. As a result, certain District transfers of restricted resources from the Water Management and Lands Trust Fund represent questioned costs of \$22.5 million.

Finding 2: District financial reporting procedures need improvement to ensure that committed and other fund balance accounts are properly reported.

Finding 3: District budgetary controls continue to need improvement. For example, the District budget module, used to monitor budget-to-actual expenditures, did not always agree with the amounts presented on the District annual financial report and did not prevent the District from over expending certain budget categories.

Finding 4: As similarly noted in our report No. 2014-129, the District needs to strengthen controls over District-owned vehicles.

BACKGROUND

Established in 1972, the Suwannee River Water Management District (District) protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the 15 counties it serves. The District is one of five water management districts created under the Florida Water Resources Act of 1972¹ and includes all or part of Alachua, Baker, Bradford, Columbia, Dixie, Gilchrist, Hamilton, Jefferson, Lafayette, Levy, Madison, Putnam, Suwannee, Taylor, and Union Counties. Governance lies with the nine-member Board which consists of one representative from each of the District's five hydrologic basins and four members who serve at-large. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate.

This operational audit of the District focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2014-129.

¹ Chapter 373, Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding 1: Restricted Resources

State law generally limits the use of restricted resources to specified purposes. For example, State law:²

- Requires that timber sale revenue be segregated in an agency trust fund and remain available to the agency in subsequent fiscal years to support land management appropriations.
- Prohibits use of revenue derived from the disposal of lands acquired with Preservation 2000 for any purpose except for deposit into the Florida Forever Trust Fund within the Florida Department of Environmental Protection (FDEP).
- Prohibits agencies that receive Florida Forever Program bond proceeds from maintaining a balance of unencumbered proceeds in its Program subaccount beyond 3 fiscal years from the date of deposit of proceeds from each bond issue. Any unexpended or unencumbered funds after 3 fiscal years from the date of deposit is to be redistributed by the Legislature at its next regular session for use in the Florida Forever Program.

Additionally, the Attorney General³ has indicated that, as a general rule, interest generated by a particular fund must be added to that fund and utilized for the same purpose as said fund. Based on this principle of law, it appears that interest revenue that is generated by a restricted resource can only be used for the same authorized purpose established for the particular resource.

The District uses special revenue funds to account for restricted resources such as timber sales, State land appropriation proceeds, and interest revenue generated from these resources. As of September 30, 2013, the District Special Revenue Fund - Water Management and Lands Trust Fund (WMLTF) total fund balance was \$26 million, which included unspent restricted resources accumulated over many years. According to District personnel, the District contracted with a CPA firm to analyze and identify restricted resources reported in the WMLTF fund balance attributed to land sales during the period October 1999 through September 2013 and to help District personnel prepare adjusting entries to properly record and report these amounts. District personnel subsequently analyzed the remaining portion of the WMLTF fund balance and, based on these analyses, the District made certain transfers to the General Fund and the Special Revenue – Land Conservation Trust Fund (LCTF) in September 2014.

Our examination of District records supporting the September 2014 transfers and discussions with District personnel disclosed that the District had not established procedures to ensure that use of restricted resources was appropriately authorized and monitored. Specifically, District personnel transferred WMLTF proceeds:

- Totalling \$13.3 million to the General Fund. The District's analysis of WMLTF moneys accumulated during the period October 1999 through September 2013 did not identify the specific source(s) of the transfer. We requested District personnel to provide other records to support the \$13.3 million transfer; however, records were not provided.

We extended our audit procedures and examined general ledger accounting transactions, amounts reported on the District annual financial reports, and other records for the 2010-11 through 2012-13 fiscal years. Our examination disclosed that \$3.7 million of the amount

² Sections 253.036, 259.101(5)(c), and 259.105(3)(k), Florida Statutes.

³ Attorney General Opinion Nos. 88-1, 92-13, 2000-32, and 2000-37.

transferred and identified in the District analysis as “unrestricted” was revenue accumulated from timber sales and the related interest that was actually restricted and not appropriate for transfer to the General Fund. Also, the District did not comply with State law⁴ as the District did not segregate the \$3.7 million timber sale and related interest revenue in an agency trust fund.

Additionally, in response to our inquiry, District personnel indicated that other “unrestricted” funds such as unexpended and unrestricted documentary stamp tax proceeds, which may be restricted or unrestricted based on proviso language in the General Appropriations Acts, had also accumulated in the WMLTF and were available for transfer to the General Fund. However, although we requested, District records were not provided to specifically identify accumulated unrestricted documentary stamp tax proceeds. Absent documentation to authorize the \$3.7 million transfer or the remaining \$9.6 million transfer, the total \$13.3 million transfer represents WMLTF questioned costs.

- Totalling \$6.8 million to the LCTF and, according to the CPA firm analysis, the source of the transferred funds was Preservation 2000 land sale proceeds. If the source of the transfer was proceeds from Preservation 2000 land sales, the transfer was contrary to State law which requires revenue derived from disposal of lands acquired with Preservation 2000 funds be deposited with the FDEP. According to District records, the District had accumulated land sale proceeds in the WMLTF since the 2001-02 fiscal year.

Subsequent to our inquiry in October 2016, District personnel prepared an analysis of land acquisitions that indicated that Preservation 2000 land sale proceeds totaling \$6.8 million had previously been expended on eligible land purchases and, therefore, showed that Preservation 2000 funds were not the source of funds for the \$6.8 million transfer. However, although we requested, District records were not provided to support the information used in the analysis or to identify the actual source of the \$6.8 million transferred.

Additionally, our inquiries and review of District records disclosed that the District had not established procedures to monitor Preservation 2000 land sale proceeds and ensure the timely return of the proceeds to the FDEP. Consequently, the District may have retained funds to which they were not legally entitled and District records did not demonstrate compliance with the statutory requirement that revenues derived from the disposal of lands acquired with Preservation 2000 funds be returned to the FDEP. Absent records that conclusively identify the source of the \$6.8 million transfer, the \$6.8 million transfer represents WMLTF questioned costs.

- Totalling \$2.4 million to the LCTF and, according to the CPA firm analysis, the source of the transferred funds was Florida Forever Program funds. If Florida Forever Program funds were the source of the transfer, the transfer was inappropriate as the funds were unexpended and unencumbered for 12 years, or 9 years beyond the 3-year time frame established in State law for the return of the funds for redistribution by the Legislature. Subsequent to our inquiry in October 2016, District personnel prepared an analysis of Florida Forever Program funds which indicated that funds totaling \$2.4 million had previously been expended and, therefore, were not the source of the \$2.4 million transferred funds. However, although we requested, District records were not provided to support the information used in the analysis or the actual source of the \$2.4 million transferred.

Additionally, our inquiries and review of District records disclosed that the District had not established procedures to monitor and ensure the timely expenditure or return of unencumbered Florida Forever Program funds. Consequently, the District may have retained funds to which they were not legally entitled and District records did not demonstrate compliance with the spending time frames for these resources or that the funds were returned for redistribution by the

⁴ Section 253.036, Florida Statutes.

Legislature . Absent records that conclusively identify the source of the \$2.4 million transfer, the \$2.4 million transfer represents WMLTF questioned costs.

Additionally, our examination of District records for the period October 2014 through March 2016 disclosed that the District recorded timber sale proceeds totaling \$1.5 million in the General Fund rather than an agency trust fund as required by State law. In response to our inquiry, District personnel explained that the General Fund timber sale proceeds were used for General Fund land management expenditures. Notwithstanding District personnel's explanation, the District did not maintain records to correlate the timber sale proceeds to the land management expenditures or to identify the balance of timber sale proceeds available for future land management expenditures. Absent the segregation of timber sale proceeds in an agency trust fund, the District did not comply with State law and the District cannot demonstrate that the timber sale proceeds were used only for allowable purposes.

Recommendation: District management should establish procedures to ensure that use of restricted resources is appropriately monitored and authorized. Such procedures should require:

- **The establishment of a separate agency trust fund to account for timber sale proceeds, an interest revenue account for each restricted resource, a Preservation 2000 Fund to account for revenue derived from the disposal of lands acquired with Preservation 2000 moneys, and a Florida Forever Program Fund.**
- **That appropriate monitoring be performed to ensure that timber sale proceeds remain available to the District in subsequent fiscal years to support land management appropriations; interest generated by a particular fund is added to that fund and utilized for the same purpose as said fund; revenue derived from the disposal of lands acquired with Preservation 2000 moneys are properly accounted for and deposited, as appropriate, into the Florida Forever Trust Fund within the FDEP; and unencumbered proceeds of the Florida Forever Program are timely returned to the Legislature for redistribution**
- **Documentation to support the allowability of all WMLTF transfers and to demonstrate compliance with State law.**

We also recommend that, should documentation not be available to support the allowability of the WMLTF transfers totaling \$22.5 million, District personnel take other appropriate action. Such other appropriate action may include restoring to the WMLTF:

- **The \$13.3 million transfer made to the General Fund.**
- **The \$6.8 million transfer made to the LCTF. Alternatively, if the source of the transfer was revenue derived from the disposal of lands acquired with Preservation 2000 funds, the District should submit this amount to the FDEP for deposit into the Florida Forever Trust Fund as required by State law.**
- **The \$2.4 million transfer made to the LCTF. Alternatively, if the source of the transfer was unencumbered Florida Forever Program funds, the District should submit this amount to the Legislature for redistribution as required by State law.**

Follow-Up to Management's Response

District management indicated in the written response that the District follows Section 373.1391, Florida Statutes, and that the law states that moneys received from the use of land owned, managed, or controlled by the District are to be returned to the lead managing agency (District) with no directive on how the funds must be used. Therefore, District management considers moneys received from the use of such lands to be unrestricted. District management also indicated that the \$13.3 million transferred to

the General Fund and \$6.8 million and \$2.4 million transferred to the Land Conservation Fund were permissible and properly unrestricted or restricted based on the funding source and the fund assignment. District management further indicated that documentation in support of the \$13.3 million transfer to the General Fund was available for inspection upon request.

Notwithstanding these responses, we disagree that moneys received pursuant to Section 373.1391, Florida Statutes, may always be held and used without reservation, or that the statute exempts the District from compliance with other statutory restrictions associated with timber sales, Preservation 2000 moneys, and the Florida Forever Program Fund. Also, Management's Response does not disclose District-established procedures to ensure compliance with these statutory restrictions.

Subsequent to Management's Response, we again requested District records to support the \$13.3 million transfer to the General Fund; however, District records were not provided to support that the \$13.3 million transfer to the General Fund or the transfers of \$6.8 million and \$2.4 million to the Land Conservation Fund were permissible. Consequently, we continue to recommend that District management establish procedures to ensure that use of restricted resources is appropriately monitored and authorized, and document the allowability of the WMLTF transfers totaling \$22.5 million or take other appropriate action.

Finding 2: Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) has established accounting and financial reporting standards that clarify definitions for governmental fund types and establish criteria for classifying fund balances into specifically defined classifications. Such classifications include, for example:

- Committed fund balance, which represents resources that can only be used for specific purposes imposed by formal action of the governing body (e.g., the Board). While the formal action to commit such balances must occur before the end of the fiscal year, the amount may be determined in the subsequent year if the amount subject to the commitment is based on events, conditions, or results that were not known or finalized at the end of the fiscal year.

Committed fund balances may also include stabilization arrangements if the formal action establishing the stabilization arrangement identifies and describes the specific circumstances under which a need for stabilization arises. In addition to being specific, such circumstances should not be expected to occur routinely. A stabilization amount that can be accessed to offset an "anticipated revenue shortfall" would not qualify as an economic stabilization unless the shortfall was quantified and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

- Assigned fund balance, which represents resources that are constrained by the Board's intent or a Board-authorized body or official for specific purposes. An allowable purpose for assigning fund balance is for anticipated budgetary deficits in the next fiscal period.
- Unassigned fund balance, which represents the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications.

As part of our audit procedures, we reviewed the District's annual financial report (AFR) for the fiscal year ended September 30, 2015, and requested District records supporting the fund balance classifications reported on the AFR for the General Fund. These fund balance classifications are shown in Table 1.

Table 1
General Fund Balance Classifications
For the Fiscal Year Ended September 30, 2015

	Amounts
Committed Fund Balances:	
Agricultural Projects	\$ 4,520,749
Water Supply Planning	4,042,042
Land Management Operations	3,900,286
Local Government Cost Share	3,883,407
Surplus Land Acquisition	2,427,836
Research, Data Collection, Analysis and Monitoring	1,691,475
Spring Project Match	423,464
Unassigned Fund Balance	7,334,355
Total Fund Balances	<u>\$28,223,614</u>

Source: District records.

Our examination of District records supporting the fund balance classifications in the General Fund and inquiries of District personnel disclosed that improvements were needed in the District's reporting of fund balance amounts. Specifically:

- The District reported committed fund balance amounts of:
 - \$3,883,407 for local government cost share that, according to District personnel, represented economic stabilization funds to be used to maintain basic land management and District operations in the event of an economic crisis.
 - \$1,691,475 for research, data collection, analysis and monitoring to cover routinely anticipated budget shortfalls.

However, the District did not have policies or procedures addressing the authority for establishing stabilization arrangements, the requirements for additions to the stabilization amount, the conditions under which stabilization amounts may be spent, or a description of the stabilization balance if not apparent on the face of the financial statements. Further, no stabilization information was disclosed in District notes to the financial statements for the 2014-15 fiscal year. Additionally, District records did not evidence that the amount committed for research, data collection, analysis and monitoring was distinguishable from other revenue shortfalls that occur during the normal course of operations. Consequently, the authority for these stabilization arrangements to be reported as committed was not readily apparent and, absent such authority, these amounts, totaling \$5,574,882, should have been reported as assigned or unassigned fund balance instead of committed fund balance.

- The amounts reported as committed on the AFR for certain programs did not always agree with the related Board-approved committed amounts less related expenditures. Our examination of District records disclosed that, for water supply planning, the Board committed \$2,513,839. However, although we requested, District records were not provided to document why the District reported \$1,528,203 more as committed on the AFR. Absent appropriate explanations of record regarding how the District determined the reported committed amount, the amount appears to be overstated by \$1,528,203.
- A committed fund balance of \$2,427,836 was reported in the General Fund for surplus land acquisition funds that, according to District personnel, related to land sales during the 2012-13 and 2013-14 fiscal years. However, our examination of District records indicated that

the District reported the surplus land acquisition funds in the WMLTF. As a result, it appears that the General Fund should have included the \$2,427,836 in the unassigned fund balance instead of reporting the amount as committed fund balance.

Based on our procedures, it appears that General Fund amounts were misclassified because District personnel misunderstood the GASB requirements for reporting fund balance classifications. When fund balance amounts are misreported, financial statement users may incorrectly assess the District's financial position and funds available for District programs.

Recommendation: The District should provide appropriate fund balance classification training to District personnel who are responsible for AFR preparation. Additionally, District management should ensure that amounts reported in the respective fund balance classifications on the AFR and the related note disclosures are properly supported by District records and meet the GASB-defined classification criteria.

Finding 3: Budget Adoption, Reporting, and Monitoring

State law⁵ provides that the District's final adopted budget is the operating and fiscal guide for the District for the ensuing year, and the District is to control its budget, at a minimum, by fund. Additionally, according to the Government Finance Officers Association's (GFOA) best practices,⁶ the regular monitoring of budgetary performance provides an early warning of potential problems, gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident, and is essential to demonstrating accountability. The process for adopting and amending the budget should afford a governmental entity with a mechanism to plan a level of expenditures to meet its obligations while remaining within the financial resources available to the entity to meet those obligations. If the entity does not properly monitor the budget, there is an increased risk that an entity's expenditures will exceed available resources.

In our report No. 2014-129, we disclosed that the District's 2011-12 fiscal year accounting system lacked the budget information necessary to control and monitor District expenditures. To remedy this deficiency, the District purchased a budget module to track Board-approved budget amounts and help limit expenditures to those amounts. According to District personnel, the District monitored the 2014-15 fiscal year budget using the budget module to track monthly budget-to-actual expenditures by fund.

The District maintained 25 individual governmental funds, including the General Fund, WMLTF, and Land Acquisition (LAF), which were reported individually on the AFR as major funds. However, our examination of budget and actual amounts reported in the 2014-15 fiscal year AFR, amounts reported in the District budget module, and other District budget-related documents disclosed that:

- The AFR General Fund original budget total expenditures amount was \$751,453 less than the Board-approved General Fund original budget total expenditures amount.
- The budget module did not always agree with the amounts presented on the AFR. For example, the General Fund original and final budget total expenditures in the budget module were \$280,456 and \$696,641 less than the respective amounts on the AFR.

⁵ Section 373.536(4)(a) and (b), Florida Statutes.

⁶ GFOA *Recommended Budget Practices from the National Advisory Council on State and Local Budgeting* (January 1998).

- The District reported WMLTF and LAF transfers out totaling \$31,629 and \$858,357, respectively; however, the District over expended the WMLTF transfer out category by \$31,629 and the budgeted LAF transfers out by \$553,586. Additionally, the District reported LAF capital outlay expenditures totaling \$4,577,759, which was \$13,194 more than the budget amount.
- The District reported as required supplementary information the original and final budget amounts for the three major funds, along with comparisons of final budget and actual amounts. However, District records did not identify the individual special revenue fund budget original and final budget amounts that supported the amounts reported on the AFR for the WMLTF and LAF.

Because District personnel responsible for the budgeting process were somewhat new to the process, and use of the budget module was also relatively new, District personnel could not explain why:

- The Board-approved General Fund original budget total expenditures amount exceeded the AFR budget amount.
- The budget module did not always agree with the amounts presented on the AFR.
- District monitoring procedures did not prevent the over expended budget amounts.

Additionally, District personnel could not explain how the WMLTC and LAF individual special revenue fund budget amounts were determined. Absent effective budgetary controls, including budgetary monitoring controls, there is an increased risk that District expenditures will exceed established budgeted amounts and available resources.

Recommendation: To ensure that budgetary controls are properly implemented and operate effectively, applicable District personnel should receive training regarding the budget adoption and amendment processes. Additionally, District management should enhance budgetary monitoring controls to ensure that:

- Both the respective budget module amounts and the amounts reported on the AFR agree with the Board-approved budget amounts.
- Budget amounts are timely amended by the Board to avoid over expenditure.
- The WMLTC and LAF individual special revenue fund budget amounts are appropriately accounted for and documented to support the budget amounts presented on the AFR.

Finding 4: Vehicle Use

As of March 2016, the District owned 23 vehicles, including 16 vehicles assigned to the District's various divisions and certain employees in the divisions, and 7 vehicles assigned to the motor pool. The District's *Vehicle Use Policy*:

- Requires employees to record use of District vehicles on a monthly vehicle log form. Information required on the form includes, for example, time of use, fuel purchases, odometer readings, driver's name, public purpose (destination), date, and signature.
- Provides that vehicles assigned to a division must be used a minimum of 15 days per month by the division.
- Provides that employees who are assigned vehicles must commute to and from District headquarters, or an alternative duty station as defined by the District, in private vehicles. In cases where the work assignment on a given day makes it more practical to begin the day from the employee's home rather than the District headquarters, employees must complete a form requesting to drive a District vehicle home overnight. The employee's division director is to sign the request form to authorize the request.

To determine the effectiveness of District vehicle usage controls, we reviewed District policies and procedures and examined District records, including vehicle log forms for 12 selected vehicles for the months of June 2015 and February 2016. Our audit tests disclosed that:

- The District's *Vehicle Use Policy* did not require supervisory review and approval of the monthly vehicle log forms. Consequently, all 24 vehicle log forms lacked any evidence of supervisory review and approval. Additionally, 6 of the vehicle log forms lacked, for one or more trips, required information such as, departure and return times and dates, destinations, or public purposes.
- The District had not established procedures to monitor vehicle usage and verify whether the divisions met the 15-day minimum vehicle usage requirement. Fifteen of the 19 vehicle log forms associated with division-assigned motor vehicles indicated that the vehicles were only driven 5 to 13 days per month, contrary to the 15-day minimum usage requirement.
- The 24 vehicle log forms identified 60 instances in which vehicles were driven home overnight and District records evidenced preauthorization for 43 of the instances. However, although we requested, District records were not provided to evidence that the employees requested or received authorization to drive the vehicles home overnight in 17 of the 60 instances.

Absent supervisory review and approval of vehicle log forms, sufficiently documented trip descriptions, and documented preauthorization to drive vehicles home overnight, there is an increased risk that District-owned vehicles may be used for unauthorized purposes. Also, absent adherence to the division-assigned vehicle 15-day minimum usage requirement, vehicles may be assigned to division without a demonstrated need. A similar finding was noted in our report No. 2014-129.

Recommendation: District management should enhance the *Vehicle Usage Policy* to require that supervisory review and approval be obtained and documented on vehicle log forms. In addition, District management should enhance vehicle usage controls, including monitoring controls, to ensure that:

- Vehicle log forms are complete and contain all the required information.
- Employees obtain documented preauthorization to drive vehicles home overnight.
- Division-assigned vehicles are used at least 15 days per month as required.

PRIOR AUDIT FOLLOW-UP

Except as discussed in Findings 3 and 4, the Department had taken corrective actions for the applicable findings included in our report No. 2014-129.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. State law⁷ requires us to conduct at least every 3 years operational audits of the accounts and records of water management districts.

⁷ Section 11.45(2)(f), Florida Statutes.

We conducted this operational audit from March 2016 through September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective action for, or was in the process of correcting, findings included in our report No. 2014-129.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

Our audit included transactions, as well as events and conditions, occurring during the audit period of October 2014 through March 2016, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of 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 and reviewed documentation such as organizational charts and minutes of Board meetings.
- Evaluated District policies and procedures relating to major District functions, such as revenue and cash collections, procurement of goods and services, employee compensation, and safeguarding of District assets.
- Reviewed District employee financial disclosure forms and District vendor records, and searched the State of Florida, Division of Corporations records for potential conflicts of interest among District employees.
- Examined District records to determine whether statutorily required positions had been established for a District Ombudsman, Inspector General, and Board Secretary-Treasurer. We also examined District records to determine whether Board Members met the residency and experience requirements.
- Obtained the Board-approved budget and reviewed applicable policies and procedures for compliance with requirements established in Section 373.536(4)(a) and (b), Florida Statutes.
- Evaluated District compliance with the budget-related transparency requirements established in Section 373.536(4)(e), (5)(d), and (6)(d), Florida Statutes.
- Evaluated District policies and procedures for reporting committed fund balances in accordance with generally accepted accounting principles.
- Reviewed District records to determine whether established policies and procedures over the physical security of cash collection points were being followed.
- Examined the account reconciliations for five bank accounts and one investment account, for 2 selected months, to determine completeness and evidence of supervisory approval.
- Evaluated District controls designed to ensure electronic funds transfers 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, ordinances, bond resolutions, and other guidelines. Also, we evaluated District procedures for allocating interest earnings to the respective District funds.
- Evaluated District tangible personal property controls related to the conduct of an annual physical inventory and the disposal of surplus property to determine compliance with Chapter 247, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-73, Florida Administrative Code.
- Evaluated District policies and procedures for assessing and collecting water permit fees, taxes, and other revenue sources to determine the extent to which the policies and procedures promoted compliance with Chapter 323 and Sections 218.33 and 201.15, Florida Statutes, and District Rules, Chapter 40B-1, Florida Administrative Code.
- From the population of 1,277 daily cash receipts totaling \$37,818,270 during the audit period, examined District records supporting 30 daily cash receipts totaling \$144,449 for accuracy and timeliness of bank deposit.

- Evaluated the adequacy of District policies and procedures for identifying delinquent permit renewals and unpermitted activity.
- Examined salary payments totaling \$134,855 made during the audit period to 20 of the District's 91 employees and former employees to determine whether salary expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
- Examined 20 of the District's 91 personnel records to determine whether employee performance evaluations were conducted during the audit period in accordance with District policies and procedures.
- Examined District records supporting payments for unused accrued leave made during the audit period to 16 employees who separated from District employment to determine whether the leave payments were adequately supported, properly calculated, and paid in accordance with applicable laws and rules.
- Evaluated the methods used by the District to acquire commercial insurance to determine whether the basis for selecting the carrier was documented in District records and conformed to good business practices.
- Evaluated the adequacy of District vehicle policies and procedures; determined whether adequate vehicle assignment, utilization, and maintenance records were maintained; and reviewed selected records to determine whether District policies and procedures were followed.
- 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.
- Examined District records to determine whether selected expenditures during the audit period were in correct amounts and adequately documented; made in accordance with applicable laws, rules, and applicable contract terms; and properly authorized and approved. From the population of District expenditures totaling \$24,933,466 during the audit period, we examined:
 - Documentation supporting 30 selected general expenditure payments totaling \$9,656,316.
 - Documentation supporting 2 months of purchasing card (P-card) expenditures totaling \$31,787.
 - Documentation supporting 30 selected travel expenditures totaling \$11,676.
- Examined District records to determine whether P-cards were timely canceled for cardholders who separated from District employment.
- Examined the District subsidiary land ledger to determine whether subsidiary records were complete and reconciled to the District's fiscal year ended September 30, 2015, annual financial report.
- From the population of 6 land acquisitions totaling \$8,473,514 and 11 land disposals totaling \$972,712 during the audit period, examined District records supporting 4 land acquisitions totaling \$8,396,169 and 8 land disposals totaling \$946,874 for District compliance with applicable laws, rules, regulations, District policies and procedures, and other guidelines.
- From the population of 375 contracts in effect during the audit period, examined District records supporting 15 contracts with contract amounts totaling \$15,824,684 to determine whether the contracts were competitively selected; appeared reasonable and necessary; were entered into in accordance with applicable laws, rules, and regulations; and were properly authorized and approved. Additionally, we examined District records supporting 15 contract payments totaling \$1,552,003 to determine whether the contract deliverables were clearly defined and District personnel verified the receipt of deliverables prior to payment.

- Examined five of seven engineering contracts with contract payments totaling \$416,909 during the audit period to determine whether the engineers were properly selected pursuant to Section 287.055, Florida Statutes; the contracts contained the required terms; and payments were in accordance with the contract.
- Evaluated controls over employee access to information technology and other District resources.
- From the population of restricted fund expenditures totaling \$7,846,899 incurred during the period October 2015 through March 2016, examined District records related to 24 disbursements totaling \$7,212,908 to determine whether District controls were adequate to separately account for and properly expend moneys from restricted resources.
- Examined transfers between funds during the 2013-14 and 2014-15 fiscal years to determine whether the transfers were allowable and adequately supported.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



DON QUINCEY
Chair
Chiefland, Florida

ALPHONAS ALEXANDER
Vice Chair
Madison, Florida

VIRGINIA H. JOHNS
Secretary/Treasurer
Alachua, Florida

KEVIN BROWN
Alachua, Florida

GARY F. JONES
Old Town, Florida

CHARLES KEITH
Lake City, Florida

VIRGINIA M. SANCHEZ
Old Town, Florida

RICHARD SCHWAB
Perry, Florida

BRADLEY WILLIAMS
Monticello, Florida

DARRELL SMITH
Interim Executive Director

SUWANNEE RIVER WATER MANAGEMENT DISTRICT

June 9, 2017

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

VIA EMAIL: flaudgen_audrpt_lg@aud.state.fl.us

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, below are the Suwannee River Water Management District's responses to the preliminary and tentative audit findings and recommendations. The District has already taken steps to implement changes as a result of these findings.

Finding No. 1: The District had not established procedures to ensure that the use of restricted resources was appropriately authorized and monitored. As a result, certain District transfers of restricted resources from the Water Management and Lands Trust Fund represent questioned costs of \$22.5 million.

Recommendation

District management should establish procedures to ensure that use of restricted resources is appropriately monitored and authorized. Such procedures should require:

- The establishment of a separate agency trust fund to account for timber sale proceeds, an interest revenue account for each restricted resource, a Preservation 2000 Fund to account for revenue derived from the disposal of lands acquired with Preservation 2000 moneys, and a Florida Forever Program Fund.
- That appropriate monitoring be performed to ensure that timber sale proceeds remain available to the District in subsequent fiscal years to support land management appropriations; interest generated by a particular fund is added to that fund and utilized for the same purpose as said fund; revenue derived from the disposal of lands acquired with Preservation 2000 moneys are properly accounted for and deposited, as appropriate, into the Florida Forever Trust Fund within the FDEP; and unencumbered proceeds of the Florida Forever Program are timely returned to the Legislature for redistribution.
- Documentation to support the allow-ability of all WMLTF transfers and to demonstrate compliance with State law.

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We also recommend that, should documentation not be available to support the allowability of WMLTF transfers totaling \$22.5 million, District personnel take other appropriate action. Such other appropriate action may include restoring to the WMLTF:

- The \$13.3 million transfer made to the General Fund.
- The \$6.8 million transfer made to the LCTF. Alternatively, if the source of the transfer was revenue derived from the disposal of lands acquired with Preservation 2000 funds, the District should submit this amount to the FDEP for deposit into the Florida Forever Trust Fund as required by State law.
- The \$2.4 million transfer made to the LCTF. Alternatively, if the source of the transfer was unencumbered Florida Forever Program funds, the District should submit this amount to the Legislature for redistribution as required by State law.

SRWMD RESPONSE

The District follows Section 373.1391, Florida Statutes, "Management of Real Property" as it pertains to lands titled to the District. This statute authorizes Water Management Districts to use land owned, managed and controlled by the District for multiple purposes including agriculture, sylvicultural, water supply and recreational uses as well as for water resource development projects, water supply development projects, storm water management projects, linear facilities and sustainable agriculture and forestry. The statute further states that moneys received from the use of these lands be returned to the lead managing agency, which is the District, with no directive on how the funds must be used. Moneys received from District owned lands are, therefore, considered unrestricted.

District management has established procedures to ensure that use of restricted resources is appropriately monitored and authorized. Special Revenue Funds are used to account for Land Management and Land Conservation activities. The Land Acquisition and Management Fund (Fund 13) accounts for annual land management appropriations, payment in lieu of taxes, timber sales and investment income generated on restricted funds. The Land Conservation Fund (Fund 10) accounts for Preservation 2000 and Florida Forever Programs, including acquisitions and disposal of lands and investment income generated on restricted funds.

Timber sales, investment interest, and other income generated by the use of District owned lands are used to achieve the goals set by the Governing Board to protect and maintain the quality and natural function of land, water and wetland systems.

Revenue derived from the disposal of lands acquired with Preservation 2000 Funds was properly accounted for and is the subject of an ongoing transfer of land to the Federal government subject to several memoranda of understanding. The District is reviewing accounting and land acquisition records for additional information and will consult with the Florida Department of Environmental Protection (FDEP) for direction and guidance on how to utilize these restricted funds.

The District is reviewing accounting and land acquisition records for additional information on proceeds from the Florida Forever Program and will consult with the Florida Department of Environmental Protection (FDEP) for direction and guidance on how to utilize these restricted funds.

Documentation supporting the allow-ability of the transfer from the Land Acquisition and Management Fund (Fund 13) is described below. Additionally, because each of these transfers is permissible, the District does not believe there are any questioned costs associated with this finding. Each transfer remains properly unrestricted or properly restricted based on its fund source and the fund to which it is assigned.

- Transfer of \$13.3 million to General Fund. An analysis of the revenues recorded in the Land Acquisition and Management Fund indicated a balance of \$13.3 million in unrestricted revenues available for any District purpose; and therefore, this balance was appropriate to be transferred to the General Fund. These funds were transferred to the General Fund as Committed Funds to be used by the District for Water Supply and Resource Planning, Land Management Operations, Research, Data Collection, Analysis and Monitoring and Cost Share Projects as authorized by the Governing Board. Audited financial statements and supporting accounting records were retrieved from an archived legacy financial system to provide documentation in support of this transfer and are available for inspection upon request.
- Transfer of \$6.8 million to Land Conservation Fund (Fund 10). This transfer represents Restricted Funds held by the District from the disposal of lands acquired with Preservation 2000 Funds. These Funds were to be used for the acquisition of other lands as they were identified. The restricted P2000 funds held by the District resulted from an ongoing parcel-by-parcel transfer of a certain acquisition to the Federal government over a ten-plus year period. The District is reviewing files associated with these transfers and will consult with FDEP for direction and guidance on how to utilize these restricted funds.
- Transfer totaling \$2.4 million to the Land Conservation Fund (Fund 10). The District is reviewing records assembled from an archived legacy financial system as well as actual documentation available in the Finance Department and contained in the Lands Database to determine if there are unencumbered Florida Forever Program funds. The District is working with the External Auditor to conduct additional analysis and will consult with FDEP for direction and guidance on how to utilize these restricted funds.

Finding No. 2: District financial reporting procedures need improvement to ensure that committed and other fund balance accounts are properly reported.

Recommendation

The District should provide appropriate fund balance classification training to District personnel who are responsible for AFR preparation. Additionally, District management should ensure that amounts reported in the respective fund balance classifications on the AFR and the related note disclosures are properly supported by District records and meet the GASB-defined classification criteria.

SRWMD RESPONSE

The District has re-trained personnel on fund balance classifications as defined in Governmental Accounting Standards Board (GASB) Statement No. 54 and has developed policies and procedures addressing the authority for establishing an Economic Stabilization Reserve as well as the conditions under which these committed funds may be used. The Economic Stabilization Reserve will be reviewed annually for the next fiscal year prior to the end of the current fiscal year by inclusion in the Governing Board resolution establishing Committed Fund Balance amounts. The District will ensure these Reserves are properly disclosed in the notes to the financial statements beginning with the 2016-2017 fiscal year.

The District is working closely with the external auditors to ensure all funds are properly classified on the Annual Financial Report (AFR) and clearly reconciled prospectively.

Finding No. 3: District budgetary controls continue to need improvement. For example, the District budget module, used to monitor budget-to-actual expenditures, did not always agree with the amounts presented on the District annual financial report and did not prevent the District from over expending certain budget categories.

Recommendation

To ensure that budgetary controls are properly implemented and operate effectively, applicable District personnel should receive training regarding the budget adoption and amendment processes. Additionally, District management should enhance budgetary monitoring controls to ensure that:

- Both the respective budget module amounts and the amounts reported on the AFR agree with the Board-approved budget amounts.
- Budget amounts are timely amended by the Board to avoid over expenditure.
- The WMLTF and LAF individual special revenue fund budget amounts are appropriately accounted for and documented to support the budget amounts presented on the AFR.

SRWMD RESPONSE

A new budget review and monitoring process has been put in place to assure the Board Approved Original (Adopted) Budget and Final (Amended) Budget agree with the budget reported on the Annual Financial Report (AFR) and loaded in the District's Accounting System Budget Module. Every October, the Budget Analyst and Chief Financial Officer (CFO) will compare the original budget to the budget uploaded to the Accounting Systems Budget Model for variances and make corrections as needed. When the Finance Department receives proper approval of budget amendments, including Governing Board Resolutions, State approval letter and budget amendment details, the budget is updated in the District's Accounting System Budget Module, and all reports are reviewed for accuracy. Financial reports are also updated at this time to include budget amendments. At the end of the fiscal year, the CFO will ensure that the Annual Financial Reports reflect the Board approved budget amounts for all Funds, including the General Fund and Special Revenue Funds.

The District has recently created the position of Chief Financial Officer. This position has assumed responsibility for the District's budget monitoring control process of reviewing and certifying monthly financial reports, including budget versus actual reports, with Division Directors. These monthly discussions include the risks of expenditures exceeding budgeted amounts and available resources. If budget amendments or re-alignments are needed, the Chief of Staff is informed and steps are taken to resolve issues as they arise in compliance with budget guidance issued by FDEP.

Finding No. 4: As similarly noted in our report No. 2014-129, the District needs to strengthen controls over District-owned vehicles.

Recommendation

District management should enhance the Vehicle Usage Policy to require that supervisory review and approval be obtained and documented on vehicle log forms. In addition, District management should enhance vehicle usage controls, including monitoring controls, to ensure that:

- Vehicle log forms are complete and contain all the required information.
- Employees obtain documented preauthorization to drive vehicles home overnight.
- Division-assigned vehicles are used at least 15 days per month as required.

SRWMD RESPONSE

The District will re-train staff on the Vehicle Usage Policy and how to properly complete the vehicle log form and on the requirement for preauthorization to drive a vehicle home overnight. The Vehicle Usage Policy will be updated and provided to all staff as part of the re-training.

Suwannee River Water Management District Response

The District is considering using a software-based solution for processing and maintaining vehicle forms and information. To strengthen controls over District-owned vehicles, District staff whose duties include Fleet Management will audit random vehicle logs monthly to ensure the forms are being completed correctly and proper authorization has been received. Additionally, the District has re-assigned all division-assigned vehicles to the general vehicle pool.

If you have any questions or if we can assist you by providing additional information, please do not hesitate to contact us.

Sincerely,

A handwritten signature in dark ink, appearing to read "Darrell Smith". The signature is fluid and cursive, with the first name "Darrell" and last name "Smith" clearly distinguishable.

Darrell Smith
Interim Executive Director