

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-050
November 2018

**NORTHWEST FLORIDA
WATER MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA
Auditor General

Board Members and Executive Director

During the period October 2016 through December 2017, Brett Cyphers served as Executive Director and the following individuals served as Northwest Florida Water Management District Board Members:

George Roberts, Chairman
Jerry Pate, Vice Chairman
John W. Alter, Secretary-Treasurer
Gus Andrews
Jon Costello
Marc Dunbar
Ted Everett
Nick Patronis
Bo Spring

The team leader was Shane L. Herman, CPA, and the audit was supervised by Derek H. Noonan, 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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NORTHWEST FLORIDA WATER MANAGEMENT DISTRICT

SUMMARY

This operational audit of the Northwest Florida Water Management District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2016-016. Our operational audit disclosed the following:

Finding 1: District policies and procedures for the disposal of tangible personal property could be improved.

Finding 2: As similarly noted in our report No. 2016-016, District motor vehicle logs did not always document supervisory review and approval to confirm the propriety of vehicle use.

Finding 3: District vehicle maintenance and repair expenditures were not always recorded in the vehicle management system, which is used to monitor these expenditures for each vehicle. A similar finding was noted in our report No. 2016-016.

BACKGROUND

The Northwest Florida Water Management District (District) was authorized in 1972 to protect and manage water resources in a sustainable manner for the continued welfare of the citizens across the 16 counties served by the District. The District is one of five water management districts created under the Water Resources Act of 1972 and includes Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Leon, Liberty, Okaloosa, Santa Rosa, Wakulla, Walton, and Washington Counties, and a part of Jefferson County. Governance lies with a nine-member board, which consists of representatives for 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.

FINDINGS AND RECOMMENDATIONS

Finding 1: Tangible Personal Property Disposals

District policies and procedures¹ for managing tangible personal property and related disposals require that:

- The Executive Director and the Board approve as surplus any District property item with an initial cost of over \$5,000 which is obsolete or no longer useful to the District.
- The Executive Director may approve for disposal in the most efficient and economical process any property having an initial cost of \$5,000 or less.

¹ Section 7.4.2, *NFWFMD Policies and Procedures Manual*, Version 16.9. This section was subsequently revised in September 2017.

In June 2017, District personnel disposed of 33 District property items, including 1 item costing \$5,630, 7 items costing \$1,192 to \$3,502, and 25 other items costing less than \$1,000, by donating the items to a nonprofit organization. However, neither the Executive Director nor Board approved these disposals. In response to our inquiry, District personnel indicated that the 33 items were placed in a room with other items authorized for disposal and all the items were inadvertently given to the nonprofit organization. In December 2017, before our audit inquiries, the Board retroactively approved the donation to the nonprofit organization and the 33 items were deleted from the District property records.

Without proper and timely approval for property disposals, the District cannot demonstrate compliance with District policies and procedures and there is an increased risk for District property to be diverted for unauthorized purposes.

Recommendation: The District should enhance procedures to ensure that tangible personal property item disposals are properly and timely approved by the Board or Executive Director prior to disposal.

Finding 2: Motor Vehicle Usage

As of December 31, 2017, the District maintained 48 motor vehicles for use by employees while conducting official business. The District *Policies and Procedures Manual (Manual)*² states that motor vehicles represent a substantial investment to the District and that years of service can be extended when vehicles are properly used and maintained.

The *Manual*³ requires that a daily vehicle use log (vehicle log) be provided in each vehicle. Each time the vehicle is used the driver is to record on the vehicle log a list of occupants, start and stop times, locations, and activities performed. Employees are required to document all travel, fuel card purchases, the overnight location, and approver of off-duty overnight use on the log.

The supervisor responsible for the vehicle is required to review the vehicle logs monthly, initial the logs to indicate approval, and send the vehicle logs to the Bureau of Finance and Accounting (Bureau) along with any fuel receipts. Bureau personnel are responsible for reconciling fuel receipts to charges on the monthly fuel card statements and, once completed, the vehicle logs are sent to the Facility Superintendent for safekeeping.

From the population of 686 vehicle logs prepared during the period October 2016 through December 2017, we requested for examination 30 vehicle logs to determine whether vehicle use was properly verified and approved. We found that 1 vehicle log lacked any documented supervisory approval because, according to District personnel, the driver's supervisor position was vacant, and no one was assigned log approval responsibilities. In addition, 1 log evidenced review by the Facilities Superintendent and another log documented review by the driver; however, neither log demonstrated supervisory approval by the driver's supervisor. Although we requested, District personnel could not explain why the 2 logs lacked appropriate supervisory review and approval.

² Section 8.1, *NWFWMD Policies and Procedures Manual*, Version 17.9.

³ Section 8.2.10, *NWFWMD Policies and Procedures Manual*, Version 17.9.

Absent documented supervisory approval of vehicle logs, there is an increased risk that District vehicles may be used for unauthorized purposes. A similar finding was noted in our report No. 2016-016.

Recommendation: The District should enhance procedures to ensure that supervisory review and approval be documented for all vehicle logs.

Finding 3: Motor Vehicle Maintenance and Repair

The *Manual*⁴ provides that the Facilities Superintendent is responsible for developing a preventative maintenance and repair schedule by vehicle type and for ensuring all preventative maintenance and repair activities are timely completed and consistent with manufacturer recommendations. To assist with the oversight of preventative maintenance and vehicle repairs, the Facilities Superintendent utilizes a vehicle management system (VMS)⁵ to record maintenance and repair expenditures and to monitor assigned vehicle maintenance needs by vehicle. Drivers are to send purchase orders and related invoices to the Facilities Superintendent so that maintenance and repair expenditures may be recorded in the VMS.

From the population of 124 maintenance and repair invoices totaling \$32,239 during the period October 2016 through December 2017, we selected 25 invoices totaling \$8,267 to determine whether expenditures were properly recorded in the VMS. We found that 10 invoices totaling \$4,232 (51 percent) of the \$8,267 examined were not recorded in the VMS. In response to our inquiry, District personnel indicated that the maintenance and repair invoices were not provided to the Facilities Superintendent due to oversight and, because documented reconciliations of maintenance and repair expenditures in the VMS to those expenditures in the District accounting system were not performed, the District did not detect the VMS omissions. According to the Director of Asset Management, he quarterly performed informal comparisons of an unspecified number of maintenance and repair records to corresponding entries in the VMS and asserted that these comparisons were sufficient without more comprehensive reconciliations. Notwithstanding, the effectiveness of the informal comparisons appears limited given the VMS omissions identified by our audit procedures.

Documented periodic reconciliations of vehicle maintenance and repair expenditures in the VMS to those expenditures in the District accounting system would reduce the risk that VMS errors and omissions will not be timely detected and corrected. Consistent and complete records of vehicle maintenance and repair expenditures for each vehicle are essential to ensure vehicles are properly maintained and to assist management in making vehicle replacement decisions. A similar finding was noted in our report No. 2016-016.

Recommendation: The District should enhance procedures to ensure that maintenance and repair expenditures are recorded in the VMS by periodically reconciling the VMS expenditure records to District accounting records.

⁴ Section 8.4, *NFWFMD Policies and Procedures Manual*, Version 17.9.

⁵ The vehicle management system (VMS) tracks vehicle usage, mileage, and fuel consumption. Based on vehicle usage and previously performed maintenance recorded in VMS, the VMS notifies the user when a vehicle is due for a specified maintenance procedure.

PRIOR AUDIT FOLLOW-UP

Except as discussed in Findings 2 and 3, the District had taken corrective actions for the applicable findings included in our report No. 2016-016.

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 law⁶ requires us to conduct at least every 3 years operational audits of the accounts and records of water management districts.

We conducted this operational audit from January 2018 through July 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective action for, or was in the process of correcting, findings included all applicable deficiencies disclosed in our report No. 2016-016.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those

⁶ Section 11.45(2)(f), Florida Statutes.

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 2016 to December 2017, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Evaluated the duties and responsibilities administratively assigned to the District and examined documentation such as organizational charts and minutes of Board meetings to determine whether the District complied with Chapter 373, Florida Statutes.
- Evaluated the effectiveness of District policies and procedures relating to major District functions, such as revenue and cash collections, motor vehicle usage, procurement of goods and services, employee compensation, payroll and personnel, travel, and safeguarding of District assets, to determine whether internal controls were designed properly and operating effectively.
- Reviewed District employee financial disclosure forms for the 2016 tax year and District vendor records for the audit period, and searched the State of Florida, Division of Corporations, records to determine whether potential conflicts of interest existed among District officers and employees.
- From the population of 97 electronic funds transfers (EFTs) totaling \$27.1 million during the audit period, examined District records supporting 25 selected EFTs totaling \$10.3 million to determine whether the EFTs were properly authorized, processed, and documented.
- Evaluated District tangible personal property (TPP) controls over the annual physical TPP inventory and the disposal of surplus TPP to determine compliance with Chapter 274, Florida Statutes; Department of Financial Services Rules, Chapter 69I-73, Florida Administrative Code; and District policies and procedures.
- Examined District personnel records for 25 of the 118 employees employed during the audit period to determine whether employee performance evaluations were conducted in accordance with District policies and procedures.
- Examined District records supporting all 171 bonus payments totaling \$249,850 paid during the audit period to determine whether the payments were made in accordance with Section 215.425, Florida Statutes, and District policies and procedures.
- Examined District records to determine whether the District took appropriate action to recover the extra employee compensation payment disclosed in our report No. 2016-016.

- From the population of 1,084 permit receipts totaling \$253,820 during the audit period, examined District records supporting 30 selected permit receipts totaling \$15,440 to determine whether proper authorization was obtained before the permits were issued.
- Assessed the adequacy of District-established policies and procedures for physically securing cash collections and, from the population of 384 daily cash receipts totaling \$37.7 million during the audit period, examined District records supporting 30 selected cash receipts totaling \$1.3 million for accuracy and timeliness of bank deposits.
- From the population of four State grant reimbursements for District employee compensation costs totaling \$12,623 during the audit period, examined two reimbursements totaling \$8,228 to determine whether the employee compensation charged to the grants was allowable, reasonable, correctly calculated.
- Examined District records supporting 30 selected travel reimbursements totaling \$3,187 from the population of 345 travel reimbursements totaling \$71,141 during the audit period to determine whether the travel reimbursements were made in accordance with Section 112.061, Florida Statutes, and District policies and procedures.
- From the population of 124 vehicle maintenance and repair expenditures totaling \$32,239 during the audit period, examined District records supporting 25 selected expenditures to determine whether the expenditures were properly recorded by vehicle in the vehicle management system.
- From the population of 686 vehicle usage logs prepared during the audit period, examined 30 selected vehicle usage logs to determine whether the logs were completed in accordance with District policies and procedures, approved by the appropriate supervisor, and fuel expenses were supported by a receipt. Additionally, we examined District personnel records to determine whether assigned vehicles were operated while the employee was on leave and, if the employee kept the vehicle overnight, determined whether the District correctly reported fringe benefits in accordance with Internal Revenue Service requirements.
- From the population of 5,248 expenditure transactions totaling \$3.7 million recorded in the Lands Management Fund during the audit period, examined District records supporting 30 selected transactions totaling \$795,928 to determine whether the expenditures were used in accordance with land management appropriation restrictions.
- Examined District records supporting transfers totaling \$133,332 from the Lands Management Fund during the audit period to determine whether the fund that received the transfers properly expended the moneys in accordance with land management appropriation restrictions.
- Evaluated controls over the harvesting of timber from District lands to determine whether the District had established separate accountability for timber proceeds in accordance with Section 253.036, Florida Statutes.
- Examined District records supporting a February 2018 remittance totaling \$209,293 to the Department of Environmental Protection (DEP) to determine whether the District correctly calculated and remitted sales proceeds and interest earned from the sale of surplus lands to the DEP in accordance with Sections 253.0341(12) and 259.101(5)(c), Florida Statutes.
- Reviewed the District's audit committee membership as of June 2018 to determine whether members of management were excluded from the audit committee in accordance Governmental Finance Officers Association Best Practices.
- 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



Brett J. Cyphers
Executive Director

Northwest Florida Water Management District

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

November 15, 2018

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

Dear Ms. Norman:

Thank for the opportunity to review the preliminary and tentative findings of the AG operational audit of the Northwest Florida Water Management District. District management has addressed each of the three audit findings. We offer the following responses to the individual findings.

Auditor General Finding 1: District policies and procedures for the disposal of tangible personal property could be improved.

Auditor General Recommendation: The District should enhance procedures to ensure tangible personal property item disposals are properly and timely approved by the Board or Executive Director prior to disposal.

District Response: The premature donation of the tangible personal property referenced in the report was inadvertent. The District enhanced its practices in June 2018 to minimize the possibility of future oversight, and storage areas were established to physically separate tangible personal property that has been declared surplus by the Executive Director or the Governing Board from those items awaiting such declaration.

Auditor General Finding 2: As similarly noted in our report No. 2016-016, District motor vehicle logs did not always document supervisory review and approval to confirm the propriety of vehicle use.

Auditor General Recommendation: The District should enhance procedures to ensure that supervisory review and approval be documented for all vehicle logs.

District Response: Electronic vehicle approval and use logs replaced the former approval process and the paper vehicle-use logs in June 2018. These electronic applications complement other such measures (e.g., GPS Fleet Management System) that allow for comprehensive documentation of the supervisor's approval, the identity of the vehicle operator, and the actual use (travel) of the vehicle. Each month the electronic records are compiled into "Activity Detail Reports" and periodically reviewed by supervisors to confirm the propriety of the use. These changes were incorporated in the District's policy and procedures manual on July 13, 2018 (Chapter 8 – VEHICLES, WATERCRAFT AND EQUIPMENT, NFWFMD Policy and Procedures Manual v18.6).

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Auditor General Finding 3: District vehicle maintenance and repair expenditures were not always recorded in the vehicle management system, which is used to monitor these expenditures for each vehicle. A similar finding was noted in our report No. 2016-016.

Auditor General Recommendation: The District should enhance procedures to ensure that maintenance and repair expenditures are recorded in the VMS by periodically reconciling the VMS expenditure records to District accounting records.

District Response: The District has enhanced both the process of recording expenditures in the Vehicle Management System (VMS) and the reconciliation of those records with the receipts received in accounting.

A shared Fleet email account (fleet@nwfwater.com) was established in June 2018 as a single point of contact for all communication regarding maintenance and repair of District vehicles, watercraft, and equipment. The system provides a formal, but simple and efficient means to account for and relay to the Facilities Superintendent all vehicle-related issues, expenditures, and documentation (photographs, quotes, invoices, etc.) as well as record approvals.

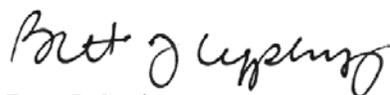
The Facility Superintendent periodically reviews WEX transaction reports (includes driver, type of purchase, purchase amounts, etc.) to cross-check receipts that have been collected for all purchased items listed. Accounting also contacts employees directly should they receive a WEX purchase with no corresponding receipt.

The VMS records are also reviewed quarterly by each division with an associated vehicle use. A separate database provides the Division Directors with reminders to perform the quarterly reviews.

Collectively these efforts will enhance the accuracy of the VMS records and those in accounting.

Again, thank you for the opportunity to comment.

Sincerely,



Brett J. Cyphers
Executive Director