

# STATE OF FLORIDA AUDITOR GENERAL

## Operational Audit

Report No. 2021-019  
September 2020

### SOUTHWEST FLORIDA WATER MANAGEMENT DISTRICT



Sherrill F. Norman, CPA  
Auditor General

## Board Members and Executive Director

During the period October 2018 through December 2019, Brian J. Armstrong served as Executive Director and the following individuals served as Southwest Florida Water Management District Board Members:

Mark C. Taylor, Chair from July 23, 2019  
Bryan K. Beswick,<sup>a</sup> Chair May 4, 2019 to July 22, 2019;  
Secretary through May 3, 2019  
Jeffrey M. Adams,<sup>b</sup> Chair through May 3, 2019  
Michelle D. Williamson, Vice Chair from July 23, 2019;<sup>c</sup>  
Secretary May 4, 2019, through July 22, 2019;  
Treasurer through May 3, 2019<sup>d</sup>  
Elijah D. "Ed" Armstrong,<sup>e</sup> Vice Chair through May 3, 2019<sup>c</sup>  
Joel A. Schleicher, Secretary from July 23, 2019  
Kelly S. Rice, Treasurer from July 23, 2019<sup>d</sup>  
Paul J. "Jack" Bispham from November 5, 2019<sup>f</sup>  
Roger W. Germann from September 17, 2019<sup>g</sup>  
John R. Henslick through August 28, 2019<sup>f</sup>  
Randall S. Maggard through June 19, 2019<sup>h,i</sup>  
James G. Murphy  
H. Paul Senft Jr. through March 1, 2019<sup>i</sup>  
Rebecca J. Smith  
Seth Weightman from November 5, 2019<sup>h</sup>  
Terrell Scott "Scott" Wiggins through May 3, 2019<sup>g</sup>

<sup>a</sup> Member position vacant from July 23, 2019.

<sup>b</sup> Member position vacant from May 4, 2019.

<sup>c</sup> Vice Chair position vacant May 4, 2019, through July 22, 2019.

<sup>d</sup> Treasurer position vacant May 4, 2019, through July 22, 2019.

<sup>e</sup> Member position vacant from May 4, 2019.

<sup>f</sup> Member position vacant August 29, 2019, through November 4, 2019.

<sup>g</sup> Member position vacant May 4, 2019, through September 16, 2019.

<sup>h</sup> Member position vacant June 20, 2019, through November 4, 2019.

<sup>i</sup> Member position vacant from March 2, 2019.

<sup>j</sup> Member continued to serve beyond the end of term, March 1, 2019, in accordance with Section 373.073(1)(a), Florida Statutes.

The team leader was Janet N. Case, CPA, and the audit was supervised by Rachel P. Sellers, CPA.

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

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# **SOUTHWEST FLORIDA WATER MANAGEMENT DISTRICT**

## ***SUMMARY***

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This operational audit of the Southwest 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. 2019-001. Our audit did not disclose any findings and recommendations regarding District processes and administrative activities included within the scope of our audit that must be reported in writing.

## ***BACKGROUND***

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Authorized in 1972, the Southwest Florida Water Management District (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 Florida Water Resources Act of 1972<sup>1</sup> and includes all or part of Charlotte, Citrus, Desoto, Hardee, Hernando, Highlands, Hillsborough, Lake, Levy, Pinellas, Manatee, Marion, Pasco, Polk, Sarasota, and Sumter Counties. Governance lies with a 13-member Board which consists of 9 representatives from the District's five designated geographic areas and 4 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.

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

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The District had taken corrective actions for the applicable findings included in our report No. 2019-001.

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

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The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. State law<sup>2</sup> requires us to conduct at least every 3 years operational audits of the accounts and records of water management districts.

We conducted this operational audit from March 2020 through May 2020 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.

This operational audit focused on selected District processes and administrative activities.

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

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

For those areas, our audit objectives 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, administrative rules, 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 internal controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2019-001.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

In planning and conducting our audit, we assessed whether internal controls were significant to our audit objectives by considering the internal control integrated framework established by the Committee of Sponsoring Organizations (COSO)<sup>3</sup> and adapted for a government environment within the *Standards for Internal Control in the Federal Government* issued by the United States Government Accountability Office. That framework is illustrated in the following table.

### COSO Internal Control Integrated Framework

Internal Control Component	Description	Underlying Principles (To be Applied by the District and Management)
<b>Control Environment</b>	Standards, processes, and structures that provide the basis for carrying out internal control across the organization. Represents the foundation on which an effective internal control system is built.	<ul style="list-style-type: none"> <li>• Demonstrate commitment to integrity and ethical values.</li> <li>• Exercise oversight responsibility.</li> <li>• Establish structures and reporting lines and assign authorities and responsibilities.</li> <li>• Demonstrate commitment to a competent workforce.</li> <li>• Hold individuals accountable for their responsibilities.</li> </ul>
<b>Risk Assessment</b>	Management’s process to consider the impact of possible changes in the internal and external environment and to consider actions to mitigate the impact. The basis for how risks will be managed.	<ul style="list-style-type: none"> <li>• Establish clear objectives to define risk and risk tolerances.</li> <li>• Identify, analyze, and respond to risks.</li> <li>• Consider the potential for fraud.</li> <li>• Identify, analyze, and respond to significant changes that impact the internal control system.</li> </ul>
<b>Control Activities</b>	Activities in the form of policies, procedures, and standards that help management mitigate risks. Control activities may be preventive in nature or detective in nature and may be performed at all levels of the organization.	<ul style="list-style-type: none"> <li>• Design control activities to achieve objectives and respond to risks.</li> <li>• Design control activities over technology.</li> <li>• Implement control activities through policies and procedures.</li> </ul>
<b>Information and Communication</b>	Information obtained or generated by management to support the internal control system. Communication is the dissemination of important information to help the organization meet requirements and expectations.	<ul style="list-style-type: none"> <li>• Use relevant and quality information.</li> <li>• Communicate necessary information internally to achieve entity objectives.</li> <li>• Communicate necessary information externally to achieve entity objectives.</li> </ul>
<b>Monitoring</b>	Periodic or ongoing evaluations to verify that the internal control system is present and functioning properly.	<ul style="list-style-type: none"> <li>• Conduct periodic or ongoing evaluations of the internal control system.</li> <li>• Remediate identified internal control deficiencies on a timely basis.</li> </ul>

<sup>3</sup> The Committee of Sponsoring Organizations (COSO) of the Treadway Commission was established in 1985 to develop guidance in the areas of risk and control which enable good organizational governance and reduction of fraud. Pursuant to their mission, COSO developed a framework for internal control that consists of five components and 17 underlying principles.

We determined that all internal control components were significant to our audit objectives. The associated underlying principles significant to our objectives included:

- Board and management commitment to integrity and ethical values.
- Board exercise of oversight responsibility.
- Management establishment of an organizational structure, assignment of responsibility, and delegation of authority to achieve the District's goals and objectives.
- Management commitment to recruit, develop, and retain competent individuals.
- Management evaluation of employee performance and holding individuals accountable for their internal control responsibilities.
- Management establishment of clear objectives to enable the identification of risks and define risk tolerances.
- Management design of control activities to achieve the District's objectives and respond to risks.
- Management establishment of policies and procedures to implement internal control activities.
- Management use of relevant and quality information to achieve the District's objectives.
- Management activities to monitor the District's internal control system and evaluate the results.

This audit was designed to identify, for those areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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 2018 through December 2019 and selected District actions taken prior 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 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 District assets to determine whether internal controls were designed properly and operating effectively.
- Reviewed District employee financial disclosure forms and District vendor records and searched the State of Florida, Division of Corporations, records to determine whether potential conflicts of interest existed among District officers and employees.
- Examined District records to determine whether statutorily required positions had been established for a District Ombudsman, Inspector General, Board Secretary, and Board Treasurer and whether these positions were operating effectively. We also examined District records to determine whether Board Members met the residency and experience requirements of Section 373.073(2), Florida Statutes.
- Evaluated controls over employee access to information technology (IT) and other District resources. Specifically, from a population of 479 employees with access to the finance system and 579 employees with access to the HR and payroll system, we examined District records supporting changes to critical IT functions occurring during the audit period for 12 employees with access to the finance system and 1 employee with access to the human resource system or payroll system to determine whether these employees' access privileges were necessary for their respective functions.
- Evaluated District tangible personal property (TPP) controls for the annual physical TPP inventory and the disposal of surplus TPP to determine compliance with Chapter 274, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-73, Florida Administrative Code.
- Examined District records supporting the six land disposition transactions totaling \$5.1 million completed during the audit period to determine whether the District complied with applicable laws, rules, regulations, District policies and procedures, and other guidelines associated with these transactions.
- From the population of 539 employees who received merit increases totaling \$2 million during the audit period, examined District records supporting merit increases totaling \$121,263 to 30 selected employees and evaluated the methodology for calculating and awarding increases for compliance with Section 215.425, Florida Statutes, and District policies and procedures.
- From the population of 223 motor vehicles as of December 31, 2019, examined District records supporting the use of 27 selected motor vehicles to determine whether District vehicle policies and procedures were followed and vehicle assignments were appropriate and adequate records were maintained.
- Determined whether District records demonstrated District compliance with Section 218.391, Florida Statutes, in establishing an audit committee and selecting committee members. Additionally, we examined District records supporting contract payments totaling \$126,998 for contract audit services to determine whether the payments complied with the terms of the contract.

- From the population of 310 contracts totaling \$190.4 million in effect during the audit period, examined supporting documentation, including the contract documents for 30 selected contracts totaling \$84.6 million, to determine whether the District complied with competitive selection requirements and payments complied with the contract provisions.
- Examined District records supporting selections of the health self-insurance plan administrator and service agent to determine whether selections documented consideration of service quality and reasonableness of related fees. Additionally, we:
  - Determined whether the Office of Insurance Regulation approved the plan administrator and service agent pursuant to Section 112.08(2)(a), Florida Statutes.
  - Examined District contracts with the third-party administrator (TPA) for the health and workers' compensation self-insurance programs to determine whether the contracts required the TPA to obtain service organization controls (SOC) 1<sup>®</sup> Type 2 reports (including a service auditor's opinion on the fairness of the presentation of the service organization management's description of the service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives) and examined available reports to help assess the suitability of control policies and procedures over claims payment processes.
- From the population of restricted State fund expenditures totaling \$7.1 million incurred during the audit period, examined District records supporting 30 selected disbursements totaling \$1.8 million to determine whether District controls were adequate to separately account for and properly expend restricted State resources.
- From the population of restricted local fund expenditures related to 105 District project agreements or contracts with local governments and private entities totaling \$22.9 million incurred during the audit period, examined District records related to 3 project agreements or contracts with disbursements totaling \$10.7 million to determine whether District procedures were adequate to ensure funds were administered in accordance with program directives, complied with applicable restrictions imposed by the project agreements or contract terms, and were adequately documented and monitored.
- 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.
- Obtained management's views concerning the conclusions in this audit report, prepared a summary of management's comments, and provided a copy of the summary to management to verify that the comments were accurately represented. In addition, we included the summary of management's response in this report under the heading **MANAGEMENT'S RESPONSE**.

## ***AUTHORITY***

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Section 11.45, Florida Statutes, requires that the Auditor General conduct at least every 3 years operational audits of the accounts and records of water management districts. 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA  
Auditor General

## ***MANAGEMENT'S RESPONSE***

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District management concurred with the audit results.