

Report No. 2021-102  
January 2021

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

**SOUTH FLORIDA  
WATER MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA  
Auditor General

## Board Members and Executive Director

During the period October 2018 through December 2019, Andrew “Drew” Bartlett served as Executive Director from April 1, 2019, Ernie Marks served through March 5, 2019,<sup>a</sup> and the following individuals served as South Florida Water Management District Board Members:

Chauncey P. Goss from March 1, 2019; Chair from March 14, 2019<sup>b</sup>  
Federico E. Fernandez, Chair through February 15, 2019<sup>b, c</sup>  
Scott Andrew Wagner from March 2, 2019; Vice Chair from March 14, 2019<sup>d</sup>  
Brandon D. Tucker, Vice Chair from January 10, 2019, through February 15, 2019<sup>d, e</sup>  
Melanie Peterson, Vice Chair through January 1, 2019<sup>d, f</sup>  
Sam C. Accursio through March 1, 2019  
Frederick Barber through January 25, 2019<sup>g</sup>  
Ronald M. Bergeron from April 12, 2019  
Benjamin L. Butler from November 5, 2019  
Carlos Diaz through January 11, 2019<sup>h</sup>  
Carlos “Charlie” E. Martinez from February 27, 2019<sup>c</sup>  
Cheryl Anne Meads from February 21, 2019  
James “Jim” Moran through March 1, 2019  
Daniel T. O’Keefe through January 11, 2019<sup>i</sup>  
Charlette I. Roman from February 21, 2019  
John “Jay” P. Steinle from March 2, 2019  
Mary Jacqueline “Jacqui” Thurlow-Lippisch from February 21, 2019  
Max “Jaime” Weisinger through January 30, 2019<sup>j</sup>

<sup>a</sup> Executive Director position vacant March 6 through March 31, 2019.

<sup>b</sup> Chair position vacant February 16 through March 13, 2019.

<sup>c</sup> Member position vacant February 16 through February 26, 2019.

<sup>d</sup> Vice Chair position vacant January 2 through January 9, 2019, and February 16 through March 13, 2019.

<sup>e</sup> Member position vacant from February 16 through February 20, 2019.

<sup>f</sup> Member position vacant from January 2 through February 20, 2019.

<sup>g</sup> Member position vacant January 26 through February 28, 2019.

<sup>h</sup> Member position vacant January 12 through April 11, 2019.

<sup>i</sup> Member position vacant from January 12 through November 4, 2019.

<sup>j</sup> Member position vacant January 31 through February 20, 2019.

Note: During the period October 2018 through December 2019, the number of Board members was occasionally less than the nine-members set by Section 373.073, Florida Statutes.

The team leader was Ilene R. Gayle, CPA, and the audit was supervised by Diana G. Garza, 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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# SOUTH FLORIDA WATER MANAGEMENT DISTRICT

## ***SUMMARY***

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This operational audit of the South Florida Water Management District (District) focused on selected District processes and administrative activities, and included a follow-up on the findings noted in our report No. 2018–208. Our audit disclosed the following:

**Finding 1:** District records did not adequately document the basis for merit bonus payments or compliance with District policies. A similar finding was noted in our report No. 2018-208.

**Finding 2:** As similarly noted in our report Nos. 2018-208 and 2014-091, District bank account reconciliations did not always demonstrate timely preparation, supervisory review and approval, and prompt resolution of reconciling items.

**Finding 3:** District controls over cash collections continue to need improvement.

**Finding 4:** District records did not always evidence that the District inspector general complied with applicable statutory and District policy requirements.

**Finding 5:** District controls over procurement card use need improvement.

## ***BACKGROUND***

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Established in 1972, the South 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 served by the District. The District is one of five water management districts created under the Water Resources Act of 1972<sup>1</sup> and includes all or part of Broward, Charlotte, Collier, Glades, Hendry, Highlands, Lee, Martin, Miami-Dade, Monroe, Okeechobee, Orange, Osceola, Palm Beach, Polk, and St. Lucie Counties. Governance lies with a nine-member Board that consists of representatives from specific geographic areas within the District boundaries. 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. Additionally, the District encompasses two major watershed basins, the Okeechobee Basin and the Big Cypress Basin. The Big Cypress Basin also has a Basin Board, with appointed members setting policy. One District Board member also serves as the Big Cypress Basin Board Chair.

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. 2018-208.

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

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Merit Bonus Awards**

State law<sup>2</sup> provides that any policy, ordinance, rule, or resolution designed to implement a bonus scheme must, for example, base the award of a bonus on work performance and describe the performance standards and evaluation process by which a bonus will be awarded. The Board-adopted resolution<sup>3</sup> and District policies<sup>4</sup> provide that:

- Merit bonuses will be determined on the basis of the employee's performance during the evaluation period as documented by the employee's performance evaluation, management observation, and other knowledge of the employee's performance and conduct. An overall numerical score will be developed by the Executive Director for these performance dimensions.
- Merit bonuses will be scaled such that employees with higher scores will receive a greater share than employees with lower scores. For these purposes, "share" means either an absolute dollar value or a percent of salary associated with a score as determined by the Executive Director.
- Award and payment of merit bonuses depends on availability of funds and approval of the Board.

Our examination of District records disclosed that, during the budget approval process in August 2018, the Board approved \$750,000 for merit bonus awards payable in the 2018-19 fiscal year.

According to District personnel, in November 2018 the Executive Team<sup>5</sup> consolidated performance information received from managers and provided rating worksheets to Human Resources Bureau (HR Bureau) personnel. The rating worksheets identified, for the District's approximately 1,250 employees, the employee's performance evaluation ratings prepared by supervisors for the 2017-18 fiscal year and overall scores developed by the Chief of Staff and Executive Director. Each employee with an overall score of 9 or 10 was to receive a \$1,500 bonus award. HR Bureau personnel provided worksheets of approved employee merit bonus awards to the Payroll Services Unit to process the award payments and, in December 2018, the District awarded bonus payments totaling \$663,000 to 442 employees.

Our evaluation of the District merit bonus award process, comparison of the rating worksheets to the report of bonus payments disbursed to the 442 award recipients, and discussions with District staff disclosed that:

- Contrary to State law, the District did not describe the performance standards and evaluation process by which the bonus would be awarded. While worksheets compiling employee performance scores and overall scores identified the employees who would receive the \$1,500 award, the District did not communicate, before the rating period began, how employees could meet the performance standards to receive an overall score of 9 or 10.
- The employee performance evaluation ratings did not always correlate to the overall score developed by the Chief of Staff and Executive Director. For example, 435 employees with performance evaluation ratings of 3.4 to 4.75 received overall scores of 9 or 10 and received awards, while 376 employees with performance evaluation ratings ranging from 3.3 to

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<sup>2</sup> Section 215.425(3), Florida Statutes.

<sup>3</sup> District Resolution No. 2016-0112.

<sup>4</sup> Article IV – *Compensation and Benefits*, Section 120-109 – *Merit Bonus Policy*.

<sup>5</sup> The Executive Team consists of the Chief of Staff, General Counsel, and the Executive Director.

4.53 received an overall score of 8 and did not receive an award. In addition, 10 executives each received a performance evaluation rating of 4 to 4.5; however, 5 of the executives received an overall score of 9 or 10 and received awards while the other 5 executives received an overall score of 8 and received no award. Although we requested, District records were not provided to support the basis for the overall scores.

- The then Executive Director and Inspector General were each awarded a \$1,500 bonus, although the Executive Director was not listed on the rating worksheets and the Inspector General was included on a rating worksheet without an evaluation rating or overall score. Although we requested, District records were not provided to demonstrate the overall scores for these two employees or other records to authorize these bonus awards.

In response to our inquiry, District personnel indicated that the individuals who could explain the merit bonus award process and related authorizations for the 2018-19 fiscal year were no longer employed by the District and that the entire Executive Team was composed of new members as of April 2019. Absent appropriate communication to employees describing the performance standards and evaluation process by which bonuses will be awarded and documentation to support the basis used to determine the overall scores and related awards, District records did not demonstrate compliance with State law or that bonuses were appropriately distributed.

**Recommendation: The District should enhance procedures to ensure that the performance standards and evaluation process by which bonuses will be awarded are timely communicated to employees and that documentation is maintained to support the determination of overall scores and authorized bonus awards.**

## **Finding 2: Bank Account Reconciliations**

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved. Such controls also require that bank account reconciliations be reviewed and approved by supervisory personnel to verify that reconciliations are properly performed and related accounting entries to resolve reconciling items are promptly and accurately made. As of December 2019, the balances of the District's nine cash and investment bank accounts totaled \$763.9 million.

District policies<sup>6</sup> require cash and investment control accounts to be reconciled within 30 calendar days upon receipt of the respective bank account statements. However, neither District policies nor procedures require evidence that the bank account reconciliations were prepared within the 30-day time frame and reviewed and approved by a supervisor.

To evaluate the adequacy of District bank account reconciliations, we examined District records supporting 40 selected bank account reconciliations from the population of 150 reconciliations for the period October 2018 through December 2019.<sup>7</sup> We found that the reconciliations evidenced independent

<sup>6</sup> District Policy Article VI - *Investment and Banking*, Section 110-125(b) – *Accounting and Budget Requirements for District Banking*.

<sup>7</sup> For the 15-month period, the District prepared two reconciliations per month for one account (30 reconciliations) and a monthly reconciliation for each of the other eight bank accounts (120 reconciliations). We selected 4 months during that period and requested for examination the 40 reconciliations for those months.

preparation; however, the reconciliations did not always demonstrate timely preparation, supervisory review and approval, or prompt resolution of reconciling items. Specifically:

- District records did not identify the date bank statements were received or demonstrate, of record, that the statements were reconciled within the 30-day time frame set by District policies. Absent the bank statement received dates, we considered 16 reconciliations to be timely because they were performed within 30 days after the bank statement date. However, based on the documented reconciliation dates, the other 24 reconciliations were not prepared until 33 to 63 days, or an average of 45 days, after the bank statement dates.
- 26 reconciliations did not evidence supervisory review and approval; 10 reconciliations showed such review and approval 20 to 370 days, or an average of 63 days, after the reconciliation dates; and 4 reconciliations did not show a supervisory approval date.
- 7 reconciliations identified reconciling items for general ledger cash account balances that were a net total of \$20,704 more than the reconciled bank account balances. These reconciling items were not timely resolved as journal entries to reconcile the general ledger and bank account balances were posted 1 to 8 months, or an average of 4 months, after the applicable bank account reconciliation was prepared.

In response to our inquiry, District personnel indicated that the untimely reconciliations and journal entries were because of key personnel turnover and increased workload, and that supervisory review and approval of reconciliations were not required. Notwithstanding, supervisory review and approval are necessary to ensure that reconciliations are timely performed and that accounting entries necessary to resolve any reconciling items are promptly and accurately made.

Absent the timely preparation and review and approval of bank account reconciliations, along with accounting entries to promptly resolve any reconciling items, there is an increased risk that errors or fraud could occur without prompt detection and resolution. Similar findings were noted in our report Nos. 2018-208 and 2014-091.

**Recommendation: District policies and procedures should require that records be maintained to demonstrate that bank account reconciliations are timely prepared and reviewed and approved by a supervisor and that accounting entries are promptly made to resolve reconciling items.**

### **Finding 3: Cash Collections**

Effective controls over cash collections require that records document the dates of collections, the amounts collected, the identity of the employees who receive collections, and the transfer of collections between employees to establish responsibility should a loss of collections occur. Such controls also ensure that collections are timely deposited and require records be maintained to evidence the timeliness of deposits. During the period October 2018 through December 2019, the District made 255 daily deposits of cash and checks totaling approximately \$163.5 million. The amounts deposited were for permits, well contractor licenses, tax collections, and inspection fees, and for amounts collected for other activities such as surplus property sales and real estate leases.

The Accounting Division Cashier is responsible for collection and deposit of fees and other revenues, including those received in person and through the mail at the District Headquarters in West Palm Beach and the decentralized locations located in Ft. Myers, Naples, Okeechobee, and Orlando. District

procedures<sup>8</sup> required that collections received at the District Headquarters be delivered to the Cashier for deposit within 24 hours and collections received at the decentralized locations be delivered to the Cashier for deposit as soon as possible, but no later than 2 working days after receipt.

District policies<sup>9</sup> also required that daily cash collections totaling \$125,000 or more be deposited in the bank within 24 hours after receipt but did not specify the time frame for depositing total daily collections totaling less than \$125,000. District policies and procedures also did not require documented identification of who received collections, the dates and amounts of collections, or the transfer of collections between employees. In response to our inquiries, District personnel confirmed that there was no District policy requiring the use of a log to document collections or transfer receipts to fix responsibility for collections transferred between employees.

When receipts are not properly logged at the initial point of collection and transfer documents are not used to evidence the transfer of funds between employees, there is an increased risk of loss or theft or the untimely deposit of collections. In addition, without identification of who received the initial and transferred collections, the District may be limited in its ability to effectively fix responsibility should a loss of collections occur. A similar finding was noted in our report Nos. 2018-208 and 2014-091.

**Recommendation: The District should establish policies and procedures to require a time frame for depositing total daily collections totaling less than \$125,000 as well as documentation evidencing, at the initial point of collection, the dates and amounts of collections and the identity of the employee receiving the collections. In addition, transfer documents should be used to evidence the transfer of collections between employees.**

#### **Finding 4: District Inspector General**

State law<sup>10</sup> and District policies<sup>11</sup> contain several requirements regarding the duties of an inspector general (IG), who is to report directly to the Board. For example, State law requires the IG to develop long-term and annual audit plans based on the findings of periodic risk assessments. The plans, where appropriate, are required to show the individual audits to be conducted during each year and related resources to be devoted to the respective audits and are to be submitted to the agency head (Board) for approval.

As part of our audit, we examined District records, such as the IG long-term audit plan and IG annual audit plan for the 2018-19 fiscal year, and noted that:

- The long-term plan analyzed audits from the previous 10 years and indicated the projects planned for the 2019-20 fiscal year as administrative projects, recurring projects, one-time projects, or previously audited projects. In addition, the plan indicated targeted future plan dates for reviewing past audit topics. For each audit for the 2018-19 fiscal year, the annual audit plan also included information such as the project title, background, objective, and rationale for the audit and classified the projects as audit projects, recurring audit projects (which include investigations), or

<sup>8</sup> District Procedure Article VII – *Cash Receipts* Section 210-173 - *Statements of Procedure*.

<sup>9</sup> District Policy Article VI – *Investment and Banking*, Section 110-125(c) - *Accounting and Budget Requirements for District Banking*.

<sup>10</sup> Sections 20.055 (2)(i) and (6)(i), Florida Statutes.

<sup>11</sup> District Policy Article VII, Section 101-207(b) - *Responsibilities* and 101-205(9) – *Other Duties and Responsibilities*.

administrative projects. However, the plans did not identify the related resources devoted to the respective projects as required by State law and District policies.

- Pursuant to State law and District policies, the IG documented periodic risk assessments and used the assessment findings in the development of the long-term and annual audit plans. However, although State law requires both the long-term and annual plans be submitted to the Board for approval, District policies only require the submittal of, and the IG only submitted, the annual audit plan to the Audit and Finance Committee<sup>12</sup> for approval.

In response to our inquiry, District personnel indicated that District policies did not require long-term and annual plans to identify the resources to be devoted to the respective audits and be approved by the Board because the IG develops the plans after consideration of the 5-year strategic plan, proposed budget, and input from management. District personnel also indicated that the IG annual budget reflects the resources expended for audits and the allocated and expended resources are tracked in terms of dollars expended versus the financial return provided to the District over the years. Notwithstanding this response, District records did not demonstrate compliance with the IG statutory and District policy audit plan requirements.

Audit plans developed based on the findings of periodic risk assessments, showing resources to be devoted to the individual audits to be conducted each year, and approved by the Board, help ensure that IG activities will be in accordance with State law and that the IG will devote appropriate efforts to activities such as detecting inefficiencies or fraud and promoting prompt corrective actions and resolutions.

**Recommendation: The Board should revise District policies governing IG duties to align with State law. Such revisions should require that long-term and annual audit plans identify the resources to be devoted to the respective audits and that both plans be submitted to the Board for approval.**

#### **Finding 5: Procurement Cards – Card Issuances and Cancellations**

The District *P-Card Manual* requires cardholders to complete and sign an agreement indicating that they will adhere to District policy and procedure requirements before they receive their P-card. The District P-card administrator is responsible for issuing new and replacement P-cards to authorized employees. The cardholder agreement provides evidence that the P-card was issued to an authorized cardholder and demonstrates that the cardholder is aware of the requirements for proper P-card use.

The District *P-Card Manual* also requires the Division Director or Bureau Chief to collect and destroy a P-card when the cardholder separates from District employment and to advise the P-card administrator to cancel the cardholder's account. The timely collection of P-cards and cancellation of P-card accounts is essential to reduce the risk of unauthorized P-card use.

During the period October 2018 through December 2019, the District issued 107 P-cards. As part of our audit procedures, we requested for examination District records supporting 25 selected cardholder agreements; however, we found that:

- 4 cardholder agreements could not be located. Subsequent to our inquiry, the cardholders completed and signed the required agreement forms.

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<sup>12</sup> The Audit and Finance Committee consists of three Board members appointed by the Board Chair.

- 2 cardholder agreements were not properly completed as the agreements lacked required initials and dates.

Absent properly completed cardholder agreements, District records do not demonstrate appropriate authorization for issuance of the P-cards and there is an increased risk that cardholders may not comply with District requirements for P-card use.

In addition, during the period October 2018 through December 2019, 47 cardholders separated from District employment. To determine whether P-cards were timely canceled, we requested for examination District records supporting 22 of those accounts and found that 4 P-cards were canceled 7 to 81 days, or an average of 32 days, after the cardholders' employment separation. According to District personnel, P-card cancellation delays were due to oversights. While our examination of District records disclosed that the P-cards were not used subsequent to the employment separation dates, our procedures do not substitute for the District's responsibility to establish adequate controls over P-card use.

**Recommendation: The District should enhance procedures to ensure that cardholder agreements are completed, signed, and maintained to demonstrate that, upon issuance, cardholders are properly authorized and aware of the terms of P-card use. Additionally, the District should ensure that the P-card is promptly canceled upon the cardholder's separation from District employment.**

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

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for the findings included in our report No. 2018-208.

## ***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>13</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 April 2020 through August 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 of the District focused on selected District processes and administrative activities.

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

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<sup>13</sup> Section 11.45(2)(f), Florida Statutes.

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 the findings included in our report No. 2018-208.
- 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>14</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 Board 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>

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

<sup>14</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.

- 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 establishment of clear objectives to enable the identification of risks and define risk tolerances.
- Management consideration of the potential for fraud.
- Management design of control activities to achieve District objectives and respond to risks.
- Management design of controls over information technology.
- Management establishment of policies and procedures to implement internal control activities.
- Management use of relevant and quality information to achieve District objectives.
- Management communication of information internally and externally necessary to achieve District objectives.
- Management activities to monitor the District's internal control system and evaluate the results.
- Management remediation of identified internal control deficiencies on a timely basis.

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's 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 transactions and records 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:

- Reviewed applicable laws, rules, District policies and procedures, and other guidelines, and interviewed District personnel to obtain an understanding of applicable processes and administrative activities.
- Examined District records such as organization charts and evaluated District personnel duties and responsibilities to gain an understanding of District operations.
- Examined District records to determine whether the District had developed an anti-fraud policy to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Reviewed internal audit reports, as well as external audit reports, issued for our audit period for matters that were significant to the scope of the audit, and considered those matters in planning the audit.
- Reviewed District policies and procedures related to identifying potential conflicts of interest. We also reviewed Department of State, Division of Corporation, records; statements of financial interests; and District records to identify any potential relationships that represented a conflict of interest with vendors used by the District during the period October 2018 through December 2019.
- 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.
- Determined whether District deposits were secured in a qualified public depository as required by Section 280.03, Florida Statutes, and whether the District complied with Section 280.17, Florida Statutes, public deposit account reporting requirements.
- Examined documentation supporting a total of 40 bank account reconciliations for five bank accounts and four investment accounts for 4 selected months (November 2018, March 2019, July 2019, and November 2019) within the audit period to determine whether the reconciliations were timely, evidenced supervisory review and approval, and journal entries to resolve reconciling items were made timely.
- Evaluated the adequacy of District policies governing investments and examined District records supporting investment activity during the audit period to determine whether the District complied with applicable laws, ordinances, bond resolutions, and other guidelines.
- From the population of five significant capital projects with expenditures totaling \$95 million during the audit period, examined District records supporting two selected projects with expenditures totaling \$67 million to determine whether the architects, engineers, and construction managers were properly selected in accordance with applicable laws, rules, regulations, and other guidelines. We also requested for examination District records to evaluate the effectiveness of subcontractor service monitoring.
- From the population of 61 land acquisitions totaling \$16 million during the audit period, examined District records supporting 5 selected land acquisitions totaling \$13 million to determine whether land was purchased in accordance with State law.

- From the population of ten land disposals with a total value of \$9.3 million during the period October 2018 through December 2019, examined District records supporting three land dispositions with a total value of \$9.2 million to determine if the land was disposed of in accordance with applicable laws, rules, regulations, and policies.
- Evaluated District policies and procedures supporting revenue cash collections. Specifically, from the population of 311 daily deposits totaling \$534 million, examined District records supporting 26 collections totaling \$18 million that were included in 15 daily deposits totaling \$45 million for accuracy of amounts collected, documentation fixing responsibility for initial collections and transfers, and timeliness of bank deposit. In addition, from the population of 5,417 permits issued with fees totaling \$367,400, examined District records supporting 30 selected permits, including 17 permits with fees totaling \$181,925, to determine whether the fees were collected, and permits were issued, in accordance with applicable laws, rules, and District policies and procedures.
- From the population of salary payments totaling \$122 million to 1,543 employees during the audit period, examined District records supporting salary payments totaling \$84,920 to 30 selected employees to determine whether salary expenditures were made in accordance with applicable laws, rules, District policies and procedures, and other guidelines.
- Evaluated District policies and procedures related to overtime and analyzed overtime payments for the 3 most recent fiscal years and through December 2019 to identify any unexpected trends and to evaluate the reasonableness of the related payments.
- Evaluated District policies and procedures for determining employee eligibility for \$663,000 in merit bonus awards to 442 employees during the audit period and analyzed the methodology for calculating and awarding merit bonus amounts for compliance with Section 215.425(3), Florida Statutes, the Board resolution, and District policies.
- From the population of payments totaling \$440,616,863 321 that were made to vendors paid more than \$100,000 and 24,551 procurement card (P-card) transactions totaling \$4,323,766 during the audit period, examined District records to determine whether selected expenditure transactions were properly recorded; adequately documented; made in accordance with District policies and procedures, applicable laws, rules, grant agreements, and applicable contract terms; and properly authorized and approved. Specifically, we examined District records supporting:
  - 30 payments totaling \$178,604,123.
  - 30 P-card transactions totaling \$62,636.
- From 321 purchases totaling \$440.6 million, examined the District's competitive bidding procedures and related documentation supporting 30 selected vendor payments totaling \$178.6 million to determine whether goods and services were acquired in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- From the population of 107 employees issued P-cards during the audit period, examined District records supporting 25 selected employees to determine whether the employees accepted the P-cards and agreed to the usage terms.
- Reviewed the listing of active P-cards and P-card monthly and daily limits for reasonableness and reviewed District procedures for monitoring those limits. For the 30 P-card transactions tested we determined whether daily limits were exceeded.
- From the population of 47 cardholders, with 50 P-card accounts, who separated from District employment during the audit period, determined whether the District timely canceled P-card privileges for 22 selected cardholders.
- From the population of 65 cardholders who were still active District employees during the audit period but had a total of 69 P-card accounts closed during the audit period due to a lost, stolen or

expired P-card, determined whether the District timely canceled P-card privileges for 5 selected cardholders and maintained records to support the cancellations.

- 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***

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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 written in a cursive style with a large, stylized initial 'S'.

Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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## SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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January 7, 2021

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

**Subject: Response to the Preliminary and Tentative Audit Findings**

Dear Ms. Norman,

Pursuant to your letter to the South Florida Water Management District (District), dated December 8, 2020, enclosed please find the District's responses to the preliminary and tentative audit findings and recommendations made as a result of your operational audit of the District.

We want to thank you for the opportunity to respond to the audit findings for inclusion in your final report. We would also like to take this opportunity to commend your audit staff for the thorough audit and the professionalism they exhibited during the audit.

Sincerely,

A handwritten signature in blue ink that reads "Jennifer Smith".

Jennifer Smith  
Chief of Staff

Encl.

c: South Florida Water Management District Board Members  
Drew Bartlett, Executive Director  
John Mitnik, Assistant Executive Director  
Candida Heater, Administrative Services Division Director  
Timothy Beirnes, Inspector General

**Finding 1:** District records did not adequately document the basis for merit bonus payments or compliance with District policies. A similar finding was noted in our report No. 2018-208.

**Recommendation:** The District should enhance procedures to ensure that the performance standards and evaluation process by which bonuses will be awarded are timely communicated to employees and that documentation is maintained to support the determination of overall scores and authorized bonus awards.

**Management Response:** As noted during the audit, the entire management team that made the decisions regarding the bonus distribution process is no longer with the district. As such, we were only able to provide the records that were furnished by them without the opportunity to discuss or interview those individuals to better understand their decisions.

Further, as the current administration does not support the bonus compensation model, there is currently no need to establish the Auditor General's recommended procedures. In the event that the current administration decides to use the compensation model in the future, management will ensure that procedures are established to ensure that the performance standards and evaluation process by which bonuses will be awarded are timely communicated to employees and that documentation is maintained to support the determination of overall scores and authorized bonus awards.

**Finding 2:** As similarly noted in our report Nos. 2018-208 and 2014-091, District bank account reconciliations did not always demonstrate timely preparation, supervisory review and approval, and prompt resolution of reconciling items.

**Recommendation:** District policies and procedures should require that records be maintained to demonstrate that bank account reconciliations are timely prepared and reviewed and approved by a supervisor and that accounting entries are promptly made to resolve reconciling items.

**Management Response:** District staff agrees with the Auditor General finding stated above. Cash and investment statements are received through the normal mail delivery process and in fewer cases, uploaded from their respective websites. Going forward, all statements will be dated by Finance personnel when received and then saved in the file repository. Bank account reconciliations will also be dated when prepared, reviewed and approved by a supervisor. There are no established timeframes for the review of bank and investment account reconciliations or the resolution of reconciling items. Further, there are many factors that may affect the review of reconciliations and/or the resolution of reconciling items. For this reason,

South Florida Water Management District Preliminary and Tentative Audit Findings  
Management Responses

establishing a strict timeframe for these items is not practical; however, a timelier review and resolution of reconciling items is recognized as needing improvement.

**Finding 3:** District controls over cash collections continue to need improvement.

**Recommendation:** The District should establish policies and procedures to require a time frame for depositing total daily collections totaling less than \$125,000 as well as documentation evidencing, at the initial point of collection, the dates and amounts of collections and the identity of the employee receiving the collections. In addition, transfer documents should be used to evidence the transfer of collections between employees.

**Management Response:** The District agrees with the Auditor General finding stated above. The District recognizes the importance of depositing its cash receipts timely and believes that it has been prudent with the custodianship as well as the timely depositing of its cash collections regardless of the amounts received. Since the prior Auditor General's report (No. 2018-208), the District implemented a process whereby monies coming into the Cashier office are date stamped and initialed when received. However, considering the Auditor General's recommendation, revisions of current policies and procedures will be considered related to the timing of internal transfers and bank deposits for collections totaling less than \$125,000.

**Finding 4:** District records did not always evidence that the District inspector general complied with applicable statutory and District policy requirements.

**Recommendation:** The Board should revise District policies governing IG duties to align with State law. Such revisions should require that long-term and annual audit plans identify the resources to be devoted to the respective audits and that both plans be submitted to the Board for approval.

**Management Response:** The District's Governing Board delegates the authority to approve the Inspector General's audit plans to the Audit and Finance Committee in the Audit and Finance Committee Charter. The Internal Audit Charter will be modified to require the Inspector General submit both the annual and long-term plans to the Audit and Finance Committee for approval, and such proposed changes will be presented to the Governing Board for their consideration and approval. The recommended changes were applied to the Audit Plan for Fiscal Year 2020-2021 and Long-Term Audit Plan for Fiscal Years 2022-2026, approved by the Audit and Finance Committee on November 12, 2020, which included both the annual and long-term plans as well as the projected associated resources for each audit.

**Finding 5:** District controls over procurement card use need improvement.

**Recommendation:** The District should enhance procedures to ensure that cardholder agreements are completed, signed, and maintained to demonstrate that, upon issuance, cardholders are properly authorized and aware of the terms of P-card use. Additionally, the District should ensure that the P-card is promptly canceled upon the cardholder's separation from District employment.

**Management Response:** To enhance the process of ensuring completed cardholder agreements, the District will implement an electronic, on-line approval process that will require cardholder to complete, sign and acknowledge the terms of P-Card use before the procurement card is issued. The system will maintain a record of the completed cardholder agreement for future reference.

To assist with timely cancellation of the procurement card, after the employee separation date, additional authorized staff are now receiving email notifications of the separation notices. Authorized staff will act as a back-up to the procurement card administrator and have access to the banks Works software for procurement card cancellations. Both the procurement card manual and procurement procedures will be updated to reflect these changes.