

Report No. 2022-194
April 2022

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

**ST. JOHNS RIVER
WATER MANAGEMENT DISTRICT**



Sherrill F. Norman, CPA
Auditor General

Board Members and Executive Director

During the period October 2019 through March 2021, Dr. Ann B. Shortelle served as Executive Director and the following individuals served as St. Johns River Water Management District Board Members:

Douglas Burnett, Chairman
Robert Bradley from 9-8-20, Vice Chair from 11-10-20^a
Ronald Howse, Treasurer
Susan Dolan, Secretary from 11-10-20^b
Douglas C. Bournique through 8-28-20, from 10-9-20^c
Daniel Davis through 4-15-20^d
Cole Oliver from 10-9-20^e
Jon C. Peterson from 10-9-20^f
Janet Price from 9-8-20^g

^a Member position vacant 10-1-19, through 9-7-20, and Vice Chair position vacant 10-1-19, through 11-9-20.

^b Secretary position vacant 10-1-19, through 11-9-20.

^c Member position vacant 8-29-20, through 10-8-20.

^d Member position vacant 4-16-20, through 3-31-21.

^e Member position vacant 10-1-19, through 10-8-20.

^f Member position vacant 10-1-19, through 10-8-20.

^g Member position vacant 10-1-19, through 9-7-20.

Note: During the period October 2019, through October 2020, the number of Board members was occasionally less than the nine members set by Section 373.073, Florida Statutes.

The team leader was Daniel P. O'Donnell, CPA, and the audit was supervised by Dennis W. Gay, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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ST. JOHNS RIVER WATER MANAGEMENT DISTRICT

SUMMARY

This operational audit of the St. Johns River 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. 2019-079. Our operational audit disclosed the following:

Finding 1: Contrary to District rules, the District did not always maintain records to demonstrate how the appraised value of property was used to negotiate property purchase prices or present appraisal information concurrently with land purchase agreements proposed to the Board.

Finding 2: District personnel did not document comparisons of design build (DB) firm pay requests for the Apopka Service Center Construction Project (Apopka Project) to the guaranteed maximum price contract or subcontractor contracts and invoices. Such documented comparisons help increase the likelihood of savings in material and labor costs, prevent cost overruns or other impediments to successful completion of GMP contracts, and verify the propriety of DB firm pay requests.

Finding 3: District construction administration monitoring procedures for the Apopka Project did not include documented attendance by District personnel at the subcontractor bid openings or documented comparisons of the subcontractor bids and contracts to verify that the DB firm used a competitive selection process to select subcontractors.

Finding 4: The District did not verify the licenses of subcontractors before they commenced work on the Apopka Project.

Finding 5: The District needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of DB firm general conditions costs.

Finding 6: District inspector general procedures could be improved to ensure that the internal audit activity is subject to periodic external quality assurance reviews as required. A similar finding was noted in our report No. 2019-079.

BACKGROUND

Established in 1972, the St. Johns River Water Management District protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the 18 counties it serves. The District is one of five water management districts created under the Water Resources Act of 1972¹ and includes all or part of Alachua, Baker, Bradford, Brevard, Clay, Duval, Flagler, Indian River, Lake, Marion, Nassau, Okeechobee, Orange, Osceola, Putnam, Seminole, St. Johns, and Volusia Counties. The District encompasses 12,283 square miles, or about 23 percent, of the State's total land area. Governance lies with a 9-member board consisting of 1 representative from each of the District's 5 designated geographic areas and 4 at-large members. Each member is appointed by the

¹ Chapter 373, Florida Statutes.

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: Land Purchases

District rules² require the District to obtain at least one certified appraisal for land purchases valued at \$50,000 or more. In addition, District rules³ require the District to contract with non-staff appraisers who have no vested or fiduciary interest in the property to be appraised, transmit all pertinent data to the appraiser, review the certified appraisal to ensure compliance with professional standards, and present appraisal information to the Board concurrently with the presentation of proposed purchase agreements. Also, pursuant to District rules,⁴ the District must attempt to negotiate property acquisitions based on the appraised value of the property and maintain a file to summarize such negotiations. During the period October 1, 2019, through March 31, 2021, the District made four land purchases totaling \$1.1 million.

As part of our audit procedures, we examined District records supporting two selected land purchases, each exceeding \$50,000 and totaling \$718,009. We found that the District contracted with appraisers who had no vested or fiduciary interest in the property to be appraised, transmitted all pertinent data to the appraiser, and reviewed the certified appraisal to ensure compliance with professional practice standards. However, we also found that District land purchasing procedures could be enhanced as we noted the following sequence of events regarding one purchase:

- District personnel contacted the owner of a 1.15 acre site to potentially purchase the site to use for a pump station associated with the Crane Creek M-1 Restoration Project. On September 26, 2018, the site owner responded to the District and provided a previous letter of intent to sell the property for approximately \$152,318⁵ and another agreement by the owner that indicated an approximate \$125,630 purchase price.⁶
- A land appraisal dated January 28, 2019, was obtained by the District on January 30, 2019, which valued the site at \$84,500.
- On March 8, 2019, the District made an offer of \$76,050 to the site owner for the property.
- On March 10, 2020, the Board approved the proposed purchase agreement for the pump station site for \$215,628 and, on May 7, 2020, the District paid that amount for the site.

However, although we requested, District records were not provided to demonstrate compliance with District rules to show that the appraised value of the property was used to negotiate the property acquisition price and that the appraisal information was presented to the Board concurrently with the presentation of the proposed purchase agreement. According to District personnel, District procedures

² St. Johns River Water Management District Rules 40C-9.041(3), Florida Administrative Code.

³ St. Johns River Water Management District Rules 40C-9.061(4), Florida Administrative Code.

⁴ St. Johns River Water Management District Rules 40C-9.041(6), Florida Administrative Code.

⁵ The letter of intent specified a \$1 million purchase price for 7.55 acres, which included the 1.15 acres. The price for the 1.15 acres equated to approximately \$152,318.

⁶ The other agreement in District records provided a purchase price of \$1.95 million for 17.85 acres. The price for the 1.15 acres equated to approximately \$125,630.

did not require that records be maintained to demonstrate how the property's appraised value was used during purchase negotiations or require appraisals to accompany purchase agreements proposed to the Board. Consequently, District records did not evidence why the land was purchased for \$131,128 more than the appraised value and, although we requested, District personnel could not explain the basis for the land purchase price.

Absent effective land purchasing procedures, District records did not demonstrate compliance with District rules, the Board may not be appropriately informed about proposed land purchases, and the District may overpay for land.

Recommendation: The District should establish procedures that require and ensure that the District complies with District rules by maintaining records of property acquisition negotiations based on the appraised value of property and by presenting appraisal information to the Board concurrently with the presentation of proposed purchase agreements.

Finding 2: Monitoring Construction Pay Requests

State law⁷ allows the District to select a design-build (DB) firm for construction projects. State law further provides that a DB firm selected by the use of a qualifications-based selection process will, subsequent to competitive negotiations, establish a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. To increase the likelihood of savings in material and labor costs, prevent cost overruns or other impediments to successful completion of GMP contracts, and verify the propriety of DB firm pay requests, it is important that District personnel verify that the costs reported on DB firm payment requests are substantiated by supporting documentation such as the GMP and subcontractor contracts and invoices.

From the population of 72 capital projects with expenditures totaling \$44 million during the period October 2019 through March 2021, we requested for examination District records supporting the propriety of expenditures totaling \$9 million, including \$7 million for the Apopka Service Center Construction Project (Apopka Project). In December 2020, the Board approved the Apopka Project GMP contract with a DB firm for \$6.4 million, which included services totaling \$4.6 million by 26 subcontractors.

While our comparison of the Apopka Project DB firm construction pay requests for four selected payments totaling \$914,807, GMP contract, and applicable subcontractor invoices disclosed that the services and related amounts agreed, District records did not demonstrate that District personnel made these comparisons. In response to our inquiries, District personnel indicated they had procedures for comparing the DB firm pay requests to the GMP contract and the subcontractor invoices prior to payment but did not document the comparisons. District personnel also indicated that they did not compare DB firm pay requests with subcontractor contracts because the DB firm was responsible for maintaining subcontractor contracts.

As part of our audit, we requested and the District obtained the subcontractor contracts from the DB firm. We selected two DB firm pay requests and related payments containing subcontractor service costs

⁷ Section 287.055(9)(c), Florida Statutes.

totaling \$329,383 for 6 subcontractors and found that those pay requests and payments were consistent with the applicable subcontractor contracts. Notwithstanding, our procedures cannot substitute for the District's responsibility to properly monitor DB firm pay requests for subcontractor services.

Absent a documented comparison of DB firm pay requests to GMP contracts and applicable subcontractor contracts and invoices, there is an increased risk that the District may overpay for services and may not realize maximum cost savings under GMP contracts.

Recommendation: The District should enhance procedures for monitoring DB firm pay requests to include a documented comparison of the cost items in the DB firm pay requests to GMP contracts and applicable subcontractor contracts and invoices before payment is made to the DB firm.

Finding 3: Subcontractor Selection

The DB construction contract for the Apopka Project required the DB firm to solicit bids and award subcontracts, as necessary. The DB firm contract further required that the determination of major subcontracts was to be defined and agreed upon between the District and DB firm. Good business practice dictates that District personnel monitor the subcontractor selection process to ensure services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

In response to our inquiries, District personnel indicated that District representatives did not attend the subcontractor bid openings or verify that the bids were awarded to subcontractors based on the lowest cost bid consistent with acceptable quality. District personnel also indicated that they had no subcontractor information and relied on the DB firm to ensure the subcontractors were competitively selected.

As part of our audit procedures, we requested, and the District obtained from the DB firm, the subcontractor contract and related documents for all 26 subcontractors with services totaling \$4.6 million. We compared the bid amounts listed on the bid tabulation sheets to the DB firm subcontractor contracts and determined that the subcontracts were competitively selected and the low bid and contract amounts agreed.

While our audit procedures disclosed that the subcontractors were properly selected, our procedures cannot substitute for the District's responsibility to document verification that subcontract contracts are awarded by the DB firm using a competitive selection process and that the selected bid and contract amounts agree. Absent effective procedures to document verification of the subcontractor competitive selection process, the risk increases that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and the District may not realize maximum cost savings under a GMP contract.

Recommendation: The District should enhance procedures to ensure that District personnel document attendance at subcontractor bid openings and comparisons of selected subcontractor bids to subcontractor contracts to verify that the DB firm used a competitive selection process to select subcontractors and that the selected bid and contract amounts agree.

Finding 4: Subcontractor Licenses

State law⁸ establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. According to District personnel, the District had not established procedures requiring that verifications of subcontractor licenses be performed and documented before the subcontractors commence work on District facilities.

In response to our inquiry, District personnel indicated that they relied on the DB firm license verification process to ensure that the subcontractors that performed services for the Apopka Project were properly licensed. However, District reliance on the DB firm subcontractor license verification process provides limited assurance absent District efforts to evaluate the effectiveness of that process.

Timely documented verifications that subcontractors are appropriately licensed provides the District assurance that the subcontractors who will be working on District facilities meet the qualifications to perform the work for which they are engaged. As part of our audit procedures, we selected 9 of the 26 subcontractors with contract amounts totaling \$3 million for services on the Apopka Project and determined through online licensing searches that the subcontractors were properly licensed. However, our procedures do not substitute for the District's responsibility to implement adequate internal controls over subcontractor services.

Recommendation: The District should establish procedures to require and ensure that documentation is retained to demonstrate the verification of subcontractor licenses before the subcontractors commence work on District facilities.

Finding 5: General Conditions Costs

GMP contracts typically include provisions for general conditions costs that are not directly associated with a particular activity and may include costs relating to staff salaries and benefits, and telephone and automobile allowances. Established policies and procedures that provide appropriate guidance for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts. For contracts that include general conditions costs, appropriate policies and procedures include, for example:

- Negotiations with the DB firm to determine a reasonable amount for total budgeted general conditions costs.
- Verifications that the general conditions costs are supported by detailed documentation, such as DB firm payroll records and DB firm-paid invoices, and comply with the GMP contract.

The GMP contract for the Apopka Project included general conditions costs totaling \$658,897 to be billed to the District on monthly pay requests. According to District personnel, there is no policy or procedure for effectively negotiating, monitoring, and documenting reasonableness of the general conditions costs. While District personnel did not request support for the salaries and benefits included in the general

⁸ Chapter 489, Florida Statutes.

conditions costs amount, District personnel maintained documentation demonstrating that the general conditions costs were changed from lump sum to reimbursable during the GMP contract negotiations.

Our examination of District records associated with the Apopka Project disclosed that on four monthly DB firm payment requests totaling \$133,663 the DB firm billed the District for Project Manager and Site Superintendent salaries totaling \$126,834 and other costs, including a telephone allowance of \$669 and an automobile allowance of \$6,160. While the District received telephone receipts to support the telephone cost reimbursements, detailed payroll records such as time sheets substantiating the hours worked or receipts supporting the automobile costs were not received, further limiting the ability of District personnel to demonstrate verification of the validity of those reimbursed costs.

Absent appropriate policies and procedures, the District may be limited in its ability to monitor the reasonableness of general conditions costs, determine the propriety of pay requests for general conditions costs, and realize cost savings associated with general conditions costs in GMP contracts.

Recommendation: The District should establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general conditions costs included in GMP contracts. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating those costs. In addition, the District should include provisions in GMP contracts to require that contractors provide sufficient documentation to support and substantiate the general conditions costs for which contractors seek reimbursement.

Finding 6: Internal Audit Activity

State law⁹ contains several requirements regarding the employment and duties of an inspector general (IG), who is to report directly to the Board. Among other things, State law requires that IG audits be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* or, where appropriate, in accordance with *generally accepted governmental auditing standards (GAGAS)*. *IIA Standards*¹⁰ require an external assessment (peer) review at least once every 5 years by a qualified independent reviewer from outside the organization to determine the adequacy of the internal audit activity's quality assurance and improvement program and *GAGAS*¹¹ require external peer reviews at least once every 3 years.

To determine the applicable auditing standards that the IG followed, we requested for examination District records for the period October 2019 through March 2021 and inquired of District personnel. We found one IG report that indicated compliance with the *GAGAS* requirements; however, other reports did not specify, and District personnel could not explain, the applicable auditing standards that were followed. In addition, we found that the District IG signed a confirmation letter in May 2020 to obtain a peer review for the period October 2018 through September 2019 and the peer review team began the review. However, on September 11, 2020, the IG requested that the peer review team reschedule the peer review to a later date. Then, in a letter dated September 17, 2020, the peer review team withdrew from the review.

⁹ Sections 373.079(4)(b), and 20.055, Florida Statutes.

¹⁰ *II Standards*, paragraph 1312.

¹¹ *GAGAS*, paragraph 5.84.

In response to our inquiry, the District's Human Resource Director indicated that the District IG employed during the period October 1, 2019, through September 30, 2020, separated from District employment on March 26, 2021, and District procedures did not identify the employee responsible for contracting for and ensuring the timely completion of peer review engagements. While District personnel indicated that they were aware that a peer review was being performed, they were not aware that the review team withdrew. As of February 2022, the District had not received an external peer review of the IG internal audit activity in 14 years.

Absent consistent identification of the auditing standards followed and external peer reviews, District records did not demonstrate compliance with statutory IG requirements and there is an increased risk that the Board may not be informed about District operational deficiencies and may have limited assurance that the IG operates in accordance with applicable auditing standards. A similar finding was noted in our report No. 2019-079.

Recommendation: The District should establish effective IG policies and procedures that require and ensure compliance with State law. Such policies and procedures should specify the auditing standards that will be followed for each IG activity, ensure that an external peer review of the IG internal audit activity is received within the prescribed time frame established by the applicable auditing standards, and identify the employee responsible for contracting for and ensuring timely completion of the reviews.

PRIOR AUDIT FOLLOW-UP

Except as discussed in Finding 6, the District had taken corrective actions for the findings included in our report No. 2019-079.

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 law¹² 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 2021 through February 2022 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

¹² 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. 2019-079.
- 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 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 October 2019 through March 2021 and selected District actions taken prior and subsequent 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:

- Evaluated the duties and responsibilities administratively assigned to District personnel and examined documentation such as organization charts and Board meeting minutes to determine whether the District complied with Chapter 373, Florida Statutes.
- Evaluated the effectiveness of Board policies and District procedures relating to major District functions, such as revenue and cash collections, procurement of goods and services, employee

compensation, and safeguarding of District assets, to determine whether internal controls were designed properly and operating effectively.

- Evaluated the effectiveness of Board policies and District procedures related to identifying potential conflicts of interest. We also searched the State of Florida, Division of Corporations, records; statements of financial interests; and District records to determine whether conflicts of interest existed among District employees during the audit period.
- 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 the duties and responsibilities of 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.
- From the 54 bank and investment account reconciliations for the audit period, examined District records supporting a total of 9 reconciliations, including 3 monthly account reconciliations for one bank account and two investment accounts to determine whether the reconciliations were timely, complete, and evidenced supervisory review and approval. We also evaluated District procedures for periodically reviewing District banking agreements, the reasonableness of the agreement term, and whether minimum required balances, interest earnings, and fee and service charge amounts complied with good business practices.
- Evaluated the adequacy of Board policies governing investments and examined investment activity during the audit period to determine District compliance with applicable laws and Board policies. Also, we evaluated the reasonableness of District procedures for allocating interest earnings to the respective District funds.
- From the population of 72 capital projects with expenditures totaling \$44 million during the audit period, examined District records supporting two selected projects with estimated expenditures totaling \$9 million to determine whether the architects, engineers, and design-build firms were properly selected in accordance with applicable laws, rules, regulations, and other guidelines. We also requested for examination District records for one construction project to evaluate the effectiveness of monitoring subcontractor selection for the 26 subcontractors, licensure verification for 9 selected subcontractors, negotiation and support for general conditions costs, and monitoring construction pay requests and related payments for four selected payments totaling \$914,807.
- From the population of four land purchases totaling \$1.1 million during the audit period, examined District records supporting two selected land purchases totaling \$718,009 to determine whether the District complied with applicable laws, rules, regulations, Board policies and District procedures, and other guidelines associated with the transactions.
- Evaluated Board policies and District procedures relating to revenue cash collections. Specifically, from the population of 6,098 daily deposits totaling \$179 million, examined District records supporting 30 collections totaling \$6.8 million that were included in 15 daily deposits totaling \$9.7 million for accuracy of amounts collected, documentation fixing responsibility for initial collections and transfers, and timeliness of bank deposits. In addition, from the population of 4,237 permits issued with fees totaling \$2.9 million, examined District records supporting 30 selected permits totaling \$138,140 to determine whether the fees were collected, and permits were issued, in accordance with applicable laws, rules, Board policies, and District procedures.
- From the population of salary payments totaling \$48.7 million to 608 employees during the audit period, examined District records supporting salary payments totaling \$68,827 to 30 selected employees to determine whether salary expenditures were made in accordance with applicable laws, rules, Board policies, District procedures, and other guidelines.
- Evaluated Board policies and District procedures for determining employee eligibility for merit bonus awards totaling \$1.2 million made to 518 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 Board policies.

- Examined the settlement agreement for the two employees with severance payments totaling \$207,705 during the audit period to determine whether the severance payment amounts complied with Section 215.425(4), Florida Statutes.
- From the population of 334 contracts totaling \$82.1 million in effect during the audit period that should have been executed pursuant to the competitive bid process, examined District competitive bidding procedures and related documentation supporting 30 selected contracts totaling \$40.8 million to determine whether goods and services were acquired in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Evaluated the District P-card program to determine whether the program was administered in accordance with Board policies and District procedures. Specifically:
 - For the population of 229 cardholders as of April 2021, we examined District records to determine whether the established card limits were reasonable based upon the cardholders' job responsibilities.
 - From the population of 22 employees issued P-cards during the audit period, we examined District records supporting 14 selected employees to determine whether the employees accepted the P-cards and related usage terms.
 - From the population of 39 cardholders who separated from District employment during the audit period, we examined P-card records for 22 employees to determine whether the P-card was timely canceled upon the cardholder's employment separation.
 - From the population of 5,437 P-card transactions totaling \$848,076, we examined District records supporting 30 transactions totaling \$26,792 to determine whether the expenditures were reasonable, properly authorized and approved, correctly recorded, adequately documented, and were for a valid District purpose.
- From the population of 202 District motor vehicles as of March 31, 2021, examined District records supporting 26 selected motor vehicles to determine whether the District maintained adequate vehicle-use records and Board policies and District procedures were followed. Specifically, we examined records supporting the 1,028 overnight vehicle use assignments during the period October 2019 through March 2021 to determine whether the vehicle overnight use assignments were documented and approved in accordance with Board policies and District procedures. Also, we evaluated vehicle purchase authorization and vehicle disposal processes for compliance with prescribed policies and procedures.
- Examined District records to determine whether the District complied with United States Treasury Regulations regarding the reporting of taxable fringe benefits related to employees' personal use of District vehicles.
- 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.

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



St. Johns River Water Management District

Michael A. Register, P.E., Executive Director

4049 Reid Street • P.O. Box 1429 • Palatka, FL 32178-1429 • 386-329-4500 • www.sjrwmd.com

April 8, 2022

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

Re: St. Johns River Water Management District's written response to the Preliminary and Tentative Audit Findings for the period October 1, 2019, through March 31, 2021

Dear Ms. Norman:

Thank you for your letter dated March 9, 2022, communicating a list of preliminary and tentative audit findings and recommendations ("Preliminary Audit Findings") arising from the operational audit of the St. Johns River Water Management District (the "District") for the period from October 1, 2019, through March 31, 2022. This letter provides the District's written response concerning the Preliminary Audit Findings.

We would like to express our appreciation to the staff of your Jacksonville office and the professional manner in which they conducted our audit.

Sincerely,

A handwritten signature in black ink, appearing to be 'Rob Bradley'.

Rob Bradley
Governing Board Chair

A handwritten signature in blue ink, appearing to be 'Michael A. Register'.

Michael A. Register, P.E.
Executive Director

cc: Governing Board Members

GOVERNING BOARD

Rob Bradley, CHAIR
FLEMING ISLAND

Ryan Atwood
MOUNT DORA

Maryam H. Ghyabi-White, VICE CHAIR
ORMOND BEACH

Doug Bournique
VERO BEACH

J. Chris Peterson, SECRETARY
WINTER PARK

Douglas Burnett
ST. AUGUSTINE

Cole Oliver
MERRITT ISLAND

Ron Howse, TREASURER
COCOA

Janet Price
FERNANDINA BEACH

Finding No. 1 – Land Purchases

District Response: With regard to land purchases, the District has developed procedures to ensure compliance with District rule 40C-9.041(6), F.A.C., regarding maintenance of a file which summarizes negotiations with prospective sellers, and District rule 40C-9.061(4), F.A.C., regarding presentation of appraisal information to the Governing Board concurrently with the proposed purchase agreement. Further, the District has implemented process improvements to better document how appraisal information is presented to the Governing Board.

Finding No. 2 – Monitoring Construction Pay Requests

District Response: The Preliminary Audit Finding states the following, in part: “We selected two DB [Design Build] firm pay requests and related payments containing subcontractor service costs totaling \$329,383 for 6 subcontractors and found that those pay requests and payments were consistent with the applicable subcontractor contracts.” Additionally, “our comparison of the Apopka Project DB firm construction pay requests for four selected payments totaling \$914,807, GMP [guaranteed maximum price] contract, and applicable subcontractor invoices disclosed that the services and related amounts agreed.”

The DB contract provides that all invoices shall include, among other information, “supporting documentation as to cost and/or project completion.” The contract also provides that invoices that do not contain the required information will be returned without action. If the District enters into a DB contract in the future, the District will enhance procedures for review of invoices that include payments to subcontractors and appropriate documentation of such review.

Finding No. 3 – Subcontractor Selection

District Response: As required by the DB construction contract for the Apopka Project, the DB firm solicited bids and awarded subcontracts. Notably, the Preliminary Audit Finding determined “subcontracts were competitively selected and the low bid and contract amounts agreed.” Although there are no Florida statutes or rules for attending bid openings conducted by the DB firm, nor does the contract with the DB firm require it, the District will make a concerted effort to attend bid openings, request copies of bid solicitation advertisements and bid tabulation sheets, and document such actions if a future project utilizes a DB firm.

Finding No. 4 – Subcontractor Licenses

District response: The Preliminary Audit Finding noted that the auditors sampled “9 of the 26 subcontractors with contract amounts totaling \$3 million for services on the Apopka Project and determined through online licensing searches that the subcontractors were properly licensed.” The DB construction contract provides as follows: “Design-Builder shall maintain an adequate and competent professional staff. Design-Builder's employees, subcontractors, or agents shall be properly trained to meet or exceed any specified licensing, training and/or certification applicable to their profession. Upon request, the Design-Builder shall furnish proof thereof.” The District believes this contract provision provides appropriate oversight; however, if the District enters into another DB contract, the District will request that the Design-Builder furnish the proof of subcontractor license status as provided in the contract terms.

Finding No. 5 – General Conditions Costs

District Response: The District is evaluating its current practices. This evaluation includes consultation with other water management districts to review their policies, procedures, and best practices for negotiating general conditions costs. The District will work to implement appropriate changes with the goal of maximizing cost savings associated with general conditions costs in guaranteed maximum price (GMP) contracts.

Finding No. 6 – Internal Audit Activity

District response: The District Inspector General agrees with the finding and recommendation and is currently revising district internal auditing procedures and supporting documents to conform to the latest version of the Institute of Internal Auditors, International Professional Practices Framework, *International Standards for the Professional Practice of Internal Auditing*.

Completion of an external quality assurance peer review under these standards is tentatively planned for 2023, with scheduling dependent on the reviewer's current backlog of work and their scheduling practices. The specific reviewing organization has not yet been formally selected and engaged. The Inspector General will be responsible for ensuring the external peer review is arranged and completed, with follow-up reviews conducted at five-year intervals thereafter as required by the Standards.