

Report No. 2025-028
October 2024

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 2021 through March 2023, Andrew “Drew” Bartlett served as Executive Director and the following individuals served as South Florida Water Management District Board Members:

	<u>Service Area</u>
Chauncey P. Goss, Chair	Lower West
Scott Andrew Wagner, Vice Chair	Miami-Dade County
Ronald M. Bergeron	Broward County
Benjamin L. Butler	Northern Central
Carlos “Charlie” E. Martinez	Miami-Dade County
Cheryl Anne Meads	At-Large
Charlette I. Roman	At-Large
John “Jay” P. Steinle	Palm Beach County
Mary Jacqueline “Jacqui” Thurlow-Lippisch through June 2, 2022 ^a	At-Large

^a Position vacant June 3, 2022, through March 31, 2023.

The team leader was Karen H. Raulerson, CPA, and the audit was supervised by Hector J. Quevedo, 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.

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 · 111 West Madison Street · Tallahassee, FL 32399-1450 · (850) 412-2722

SOUTH FLORIDA WATER MANAGEMENT DISTRICT

SUMMARY

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 findings noted in our report No. 2021-102. Our operational audit disclosed the following:

Finding 1: As similarly noted in several of our previous audit reports, most recently in report No. 2021-102, District bank account reconciliations did not always demonstrate timely preparation, supervisory review and approval, or prompt resolution of reconciling items.

Finding 2: District controls over cash collections need improvement as similarly noted in several previous audit reports, most recently in our report No. 2021-102.

Finding 3: The District did not always verify that subcontractors were appropriately licensed before they commenced work on construction projects.

BACKGROUND

The South Florida Water Management District (District) was authorized in 1972 to protect and manage water resources in a sustainable manner for the continued welfare of the citizens across the 16 counties served by the District. The District is one of five water management districts created under the Water Resources Act of 1972¹ 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, which consists of six representatives for specific geographical areas within the District boundaries and three members who serve at-large. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate. 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.

FINDINGS AND RECOMMENDATIONS

Finding 1: 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 each bank account reconciliation identify the reconciler, date of the reconciliation, and supervisor who confirmed that the reconciliation was properly performed with reconciling items promptly explained and resolved. As of

¹ Chapter 373, Florida Statutes.

March 31, 2023, the balances of the District's 14 cash and investment bank accounts totaled \$433.4 million.

District policies and procedures² require cash and investment control accounts to be reconciled within 30 calendar days upon receipt³ of the respective bank account statements. However, District policies and procedures do not require records to be maintained to demonstrate who prepared the bank account reconciliations, when the reconciliations were prepared, or who reviewed and approved the reconciliations.

To evaluate the adequacy of the District bank account reconciliation process, we requested for examination District records supporting 39 of the 236 District bank account reconciliations⁴ that should have been prepared for the 18-month period October 2021 through March 2023. We found that the reconciliation documentation did not always demonstrate timely preparation, identify the reconciler, or evidence supervisory review and approval. In addition, reconciling items were not always explained or promptly resolved. Specifically:

- 8 reconciliations for 5 bank accounts had not been completed as of January 2024, which was 9 to 21 months, or an average of 13 months after the bank statement dates. The general ledger cash balances for the unreconciled accounts totaled negative \$15.6 million and ranged from negative \$14.8 million to positive \$20,986.
- Of the 31 reconciliations provided for our examination:
 - 12 were not prepared until 62 to 389 days, or an average of 154 days, after the bank statement dates, and 2 other reconciliations did not identify the reconciler or the completion dates.
 - 22 did not evidence supervisory review and approval.
 - 2 contained unexplained reconciling items totaling \$4.2 million in which the bank account balances (totaling \$10.5 million) exceeded the general ledger balances (totaling \$6.3 million) by \$4.2 million. As of December 2023, the unexplained reconciling items had remained for 8 to 15 months.

In response to our inquiry, District personnel indicated that the untimely reconciliations were due to staffing shortages. In addition, in January 2024, District personnel completed reconciliations through September 30, 2023, and general ledger journal entry corrections were made to resolve reconciling items.

Absent the timely preparation of bank account reconciliations and documentation identifying the reconciler and evidencing supervisory review and approval, along with proper explanations and resolutions of reconciling items, there is an increased risk that errors or fraud could occur without timely detection and resolution. Similar findings were noted in our report Nos. 2021-102, 2018-208, and 2014-091.

Recommendation: The District should continue efforts to ensure that bank account reconciliations are timely prepared, reviewed, and approved and require that records be maintained to demonstrate who prepared each bank account reconciliation, when the

² District Policies and Procedures, Section 110-125(b) – *Accounting and Budget Requirements for District Banking*.

³ Bank account statements are received by the District on the bank statement date using on-line banking.

⁴ During the 18-month period (October 2021 through March 2023), the District had 12 bank accounts open for the entire period, 1 account open for 12 months, and another account open for 8 months.

reconciliation was prepared, and who reviewed and approved the reconciliation, along with proper explanations and resolutions for any reconciling items.

Finding 2: Cash Collections

Effective controls over cash collections require that records document the identity of the employees who receive collections and establish responsibility for collections transferred between employees. During the period October 2021 through March 2023, the District made 355 daily deposits of cash and checks totaling \$186.3 million. The amounts deposited were for tax collections, permits, and collections for other activities such as surplus property sales and real estate leases.

To evaluate the District cash collection process, we examined District records supporting 32 selected cash collections totaling \$3.2 million and found 15 collections totaling \$891,517 that were transferred between employees without a record establishing responsibility for the collections and 2 collections totaling \$17,097 that did not identify who received the collections. In response to our inquiry, District personnel indicated that District procedures had not been established to require transfer documents or documented identification of who received collections. Subsequent to our inquiries, District personnel indicated that the use of a log to document collections at the initial point of collection was implemented in March 2023.

Absent effective controls over cash collections and transfers, there is an increased risk of loss or theft and the District may be limited in its ability to effectively fix responsibility should a loss of collections occur. Similar findings were noted in our report Nos. 2021-102, 2018-208, and 2014-091.

Recommendation: The District should continue efforts to require and ensure that District records identify who receives collections and establish responsibility for collections transferred between employees.

Finding 3: Subcontractor Licenses

State law⁵ establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, engineering, and mechanical contractors. The District's Small Business Enterprise (SBE) program, established under District rules⁶ for ensuring small businesses have maximum opportunity to participate in the District's contracting and procurement process, provides a process for certifying SBEs that meet the licensing requirements under State law. However, for subcontractors that are not certified SBEs, District procedures did not require license verifications before the subcontractors commence work on District construction projects.

For three selected construction projects,⁷ the District's prime contractors⁸ subcontracted certain construction services requiring licensure under State law to 12 subcontractors who were not certified SBEs, and the District did not verify the licensure of the subcontractors. The amount paid to the

⁵ Chapter 489, Florida Statutes.

⁶ District Rule 40E-7.673, Florida Administrative Code.

⁷ A pump station, a reservoir, and a Stormwater Treatment Area expansion project.

⁸ A prime contractor is any individual or contracting entity the District has entered into a legally binding agreement for performance of work at a mutually agreed-upon price in accordance with agreed-upon terms and conditions.

12 subcontractors totaled \$47.4 million. Although we obtained documentation to confirm that all 12 subcontractors were appropriately licensed, our procedures do not substitute for management’s responsibility to verify that subcontractors are qualified to work on District construction projects.

In response to our inquiry, District personnel indicated that they relied on the prime contractor license verification process to ensure that subcontractors performing services for District projects were properly licensed. However, District reliance on the prime contractor’s process provides limited assurance that subcontractors working on District construction projects are appropriately licensed and qualified to perform the work for which they are engaged.

Recommendation: The District should establish procedures to require documented verification that subcontractors are appropriately licensed before they commence work on District construction projects. Such procedures could require District personnel to verify each subcontractor’s license or, alternatively, to document evaluations of the effectiveness of the prime contractor subcontractor license verification process.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2021-102, except for Findings 1 and 2 as shown in Table 1.

**Table 1
Findings Also Noted in Previous Audit Reports**

Report No. 2021-102, Report No. 2018-208, Report No. 2014-091			
Finding	Finding	Finding	Finding
1	2	1	5
2	3	2	6

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.

We conducted this operational audit from April 2023 through February 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on selected District processes and administrative activities. For those areas, our audit objectives were to:

- Evaluate management’s performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.

- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2021-102.
- 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 the selection and examination of transactions and records, as well as events and conditions, occurring during the audit period of October 2021 through March 2023 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:

- Reviewed the duties and responsibilities administratively assigned to the District and examined documentation such as organizational charts and minutes of Board meetings to determine whether the District complied with Section 373.079, Florida Statutes.
- Reviewed Board information technology (IT) policies and District procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, logging and monitoring, system backups, and disaster recovery.

- Evaluated District procedures for maintaining and reviewing employee access to IT data and resources. We examined selected access privileges to the finance application for 18 of the 342 users as of June 2023 to determine the appropriateness and necessity of the access based on the employees' job duties and user account functions and the adequacy with regard to preventing the performance of incompatible duties.
- Determined whether the District had established a comprehensive IT risk assessment to document the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether an adequate, comprehensive IT security awareness and training program was in place.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- 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 identify any potential relationships that represented a conflict of interest with vendors used by the District during the audit period.
- Reviewed Inspector General reports, as well as external audit reports, for matters that were significant to the scope of the audit and considered those matters in planning the audit.
- Inquired whether the District had any expenditures or entered into any contracts under the authority granted by a state of emergency, declared or renewed during the audit period.
- Determined whether District Inspector General long-term and annual audit plans were developed and approved as required by Section 20.055, Florida Statutes, and District policy requirements.
- Determined whether District deposits were secured in a qualified public depository as required by Section 280.02, Florida Statutes, and whether the District complied with Section 280.17, Florida Statutes, public deposit account reporting requirements.
- From the 236 District bank account reconciliations that should have been prepared for the audit period, requested for examination documentation supporting 39 selected reconciliations for March 2022, September 2022, and March 2023 to determine whether the reconciliations were timely; identified reconciling items and the items were properly resolved; and evidenced supervisory review and approval.
- From the population of 142 capital projects with expenditures totaling \$767.2 million during the audit period, examined District records supporting 3 selected projects with expenditures totaling \$314.5 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 licensure verifications and construction pay requests and related payments monitoring for 10 selected payments totaling \$28.7 million.
- Evaluated District procedures for identifying and inventorying attractive tangible personal property items.
- From the population of 64 land acquisitions with a total value of \$23 million during the audit period, examined District records supporting five selected land acquisitions totaling \$17.7 million to determine whether land was purchased in accordance with Section 373.139, Florida Statutes. In addition, we examined District records supporting the Green Heart of the Everglades Land Acquisition in June 2023 for \$29,850,000, to determine whether the land was purchased in accordance with Section 373.139, Florida Statutes.

- From the population of 57 land disposals with a total value of \$1.6 million during the audit period, examined District records supporting 4 selected land disposals with a total value of \$1.5 million to determine whether the District complied with Section 373.089, Florida Statutes.
- Evaluated District policies and procedures supporting revenue cash collections. Specifically, from the population of 355 daily deposits totaling \$186.3 million during the audit period, examined District records supporting 32 collections totaling \$3.8 million for accuracy of amounts collected, documentation fixing responsibility for initial collections and transfers, and timeliness of bank deposit.
- From the population of 5,175 permits issued with fees totaling \$6.8 million during the audit period, examined District records supporting 30 selected permits totaling \$569,750 to determine whether the fees were charged and issued in accordance with the District's permit application fee schedule and collected in accordance with District Policies and Procedures Section 210-173 - *Statements of Procedure*, and District Policies and Procedures, Section 110-125(c) and (d) - *Accounting and Budget Requirements for District Banking*.
- From the population of salary payments totaling \$159.4 million to 1,630 employees during the audit period, examined District records supporting salaries payments totaling \$97,741 to 30 selected employees to determine whether salary expenditures were made in accordance with District Policies and Procedures, Chapter 120 – *Human Resources*.
- From the population of payments totaling \$1.1 billion that were made to vendors paid more than \$100,000 and 28,134 procurement card (P-card) transactions totaling \$5.7 million during the audit period, examined District records to determine whether goods and services were acquired in accordance with competitive bidding requirements, and selected expenditure transactions were properly recorded, adequately documented, made in accordance with District administrative 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 \$58.8 million.
 - 42 P-card transactions totaling \$40,153.
- From the population of 90 employees issued P-cards during the audit period, selected 25 employees and examined District records 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. Specifically, from the 28,134 total P-card transactions during the audit period, we examined District records supporting 36 selected P-card transactions to determine whether the daily limits were exceeded.
- From the population of 62 P-cardholders who separated from District employment during the audit period, determined whether the District timely canceled P-card privileges for 21 selected cardholders.
- Evaluated District procedures for ensuring cost-share requirements are met for Comprehensive Everglades Restoration Plan (CERP) projects.
- 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 initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

October 1, 2024

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:

Per your letter to the South Florida Water Management District (District), dated September 4, 2024, 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

Enclosure

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

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

Finding 1: As similarly noted in several of our previous audit reports, most recently in report No. 2021-102, District bank account reconciliations did not always demonstrate timely preparation, supervisory review and approval, or prompt resolution of reconciling items.

Recommendation: The District should continue efforts to ensure that bank account reconciliations are timely prepared, reviewed, and approved and require that records be maintained to demonstrate who prepared each bank account reconciliation, when the reconciliation was prepared, and who reviewed and approved the reconciliation, along with proper explanations and resolutions for any reconciling items.

Management Response: District staff agrees with the Auditor General finding stated above. Restructuring of the Finance Bureau has enabled workload distribution to clearly demonstrate segregation of duty with appropriate supervisory review to be completed in a timely fashion. Bank statements are timestamped, the name of each preparer and reviewer along with the respective dates are noted on the front pages of each monthly reconciliation package. Explanations and resolutions for the reconciling items are included with in the reconciliation package.

Finding 2: District controls over cash collections need improvement as similarly noted in several previous audit reports, most recently in our report No. 2021-102.

Recommendation: The District should continue efforts to require and ensure that District records identify who receives collections and establish responsibility for collections transferred between employees.

Management Response: District staff agrees with the Auditor General finding stated above. Finance staff has implemented a log to identify segregation of incoming payments, cash and checks, to provide full chain of custody. Finance has also established cross training to ensure when the cashier is not available the chain of custody is clearly documented.

Finding 3: The District did not always verify that subcontractors were appropriately licensed before they commenced work on construction projects.

Recommendation: The District should establish procedures to require documented verification that subcontractors are appropriately licensed before they commence work on District construction projects. Such procedures could require District personnel to

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

verify each subcontractor's license or, alternatively, to document evaluations of the effectiveness of the prime contractor subcontractor license verification process.

Management Response: District staff agrees with the Auditor General finding stated above. The District has revised its Application for Payment, Contractor's Affidavit, to contain a certification by Contractor that all subcontractors retained to complete the work have the proper licensure required by law. The Application for Payment is submitted by Contractor during the course of the work in requesting progress or final payments and which is to be accompanied by such supporting documentation as is required by the contract documents.