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## South Florida Water Management District

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### Governing Board Audit and Finance Committee AGENDA

*This meeting is open to the public*

April 9, 2008

10:00 AM

District Headquarters - Storch Room  
3301 Gun Club Road  
West Palm Beach, FL 33406

*All or part of this meeting may be conducted as a teleconference in order to permit maximum participation of Governing Board members. The order of items appearing on the agenda is subject to change during the meeting and is at the discretion of presiding officer. Public Comment will be taken after each presentation and before Governing Board action. Public Comment will also be taken at the end of the meeting.*

1. **Call to Order** - Charles Dauray, Committee Chair
  
2. **Approval of Minutes**  
  
Approval of the February 13, 2008, meeting minutes held in West Palm Beach, Florida.
  
3. **Changes to Agenda**
  
4. **FY06-07 Annual Audit Management Letter & Single Audit Discussion** - Tony Brunson, Partner, Sharpton & Brunson, CPA's  
See supporting document: [Presentation SFWMD 2007 3-24-08 97-2003.pdf](#)  
See supporting document: [single audit.pdf](#)  
See supporting document: [Auditor General Management Letter 2007 SFWMD 3-28-08.pdf](#)
  
5. **General Engineering and Professional Services/Small Business Enterprise Program Update** - Frank Hayden, Department Director, Procurement Department  
See supporting document: [General Engineering and Professional Services.pdf](#)

6. **Implementation of Recommendations from Independent Review of Investment Policies and Strategies** - Paul E. Dumars, Sr., Chief Financial Officer, Executive Office and Stephen Freilich, Treasurer, Executive Office  
See supporting document: [April 2008 A&F Meeting\\_ Update of Investment Strategies.pdf](#)  
See supporting document: [TIC Charter.pdf](#)  
See supporting document: [Treasury response to Investment Review March 2008.pdf](#)
7. **Modifications to Inspector General's Annual Audit Work Plan** - John Williams, Inspector General  
See supporting document: [2008 Annual Audit Plan - Proposed Revision.pdf](#)
8. **Inspector General's Office Update** - John Williams, Inspector General
9. **Old Business / New Business**
10. **Public Comment**



1. **Call to Order** - Charles Dauray, Committee Chair



**2. Approval of Minutes**

Approval of the February 13, 2008, meeting minutes held in West Palm Beach, Florida.



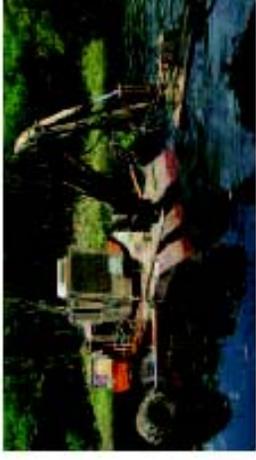
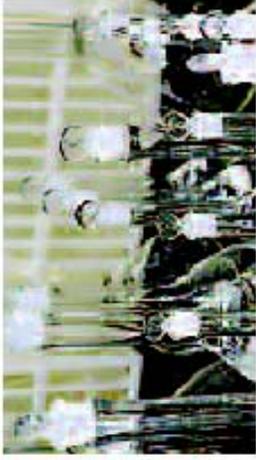
### 3. Changes to Agenda



4. **FY06-07 Annual Audit Management Letter & Single Audit Discussion -**  
Tony Brunson, Partner, Sharpton & Brunson, CPA's  
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# SOUTH FLORIDA WATER MANAGEMENT DISTRICT



## Audit Results & Financial Overview September 30, 2007 and 2006



# South Florida Water Management District

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## Scope of Examination:

- Audit Of Financial Statements Pursuant To Generally Accepted Auditing Standards And Government Auditing Standards
- Review Of Internal Controls Governing Financial Operations, As Well As Laws and Regulations
- Tests Of Compliance With Major Federal Awards And State Projects
- Audit In Accordance With The Provisions of Chapter 10.550, Rules of Florida's Auditor General

# South Florida Water Management District

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## ➤ Major Federal Award Programs

- U.S. Department of Homeland Security– Hazard Mitigation Projects
- U.S. Department of Homeland Security – Hurricane Disaster Relief

## ➤ Major State Projects

- Water Management District – Land Acquisition
- Surface Water Restoration and Wastewater Projects
- Water Protection and Sustainability Project

# South Florida Water Management District

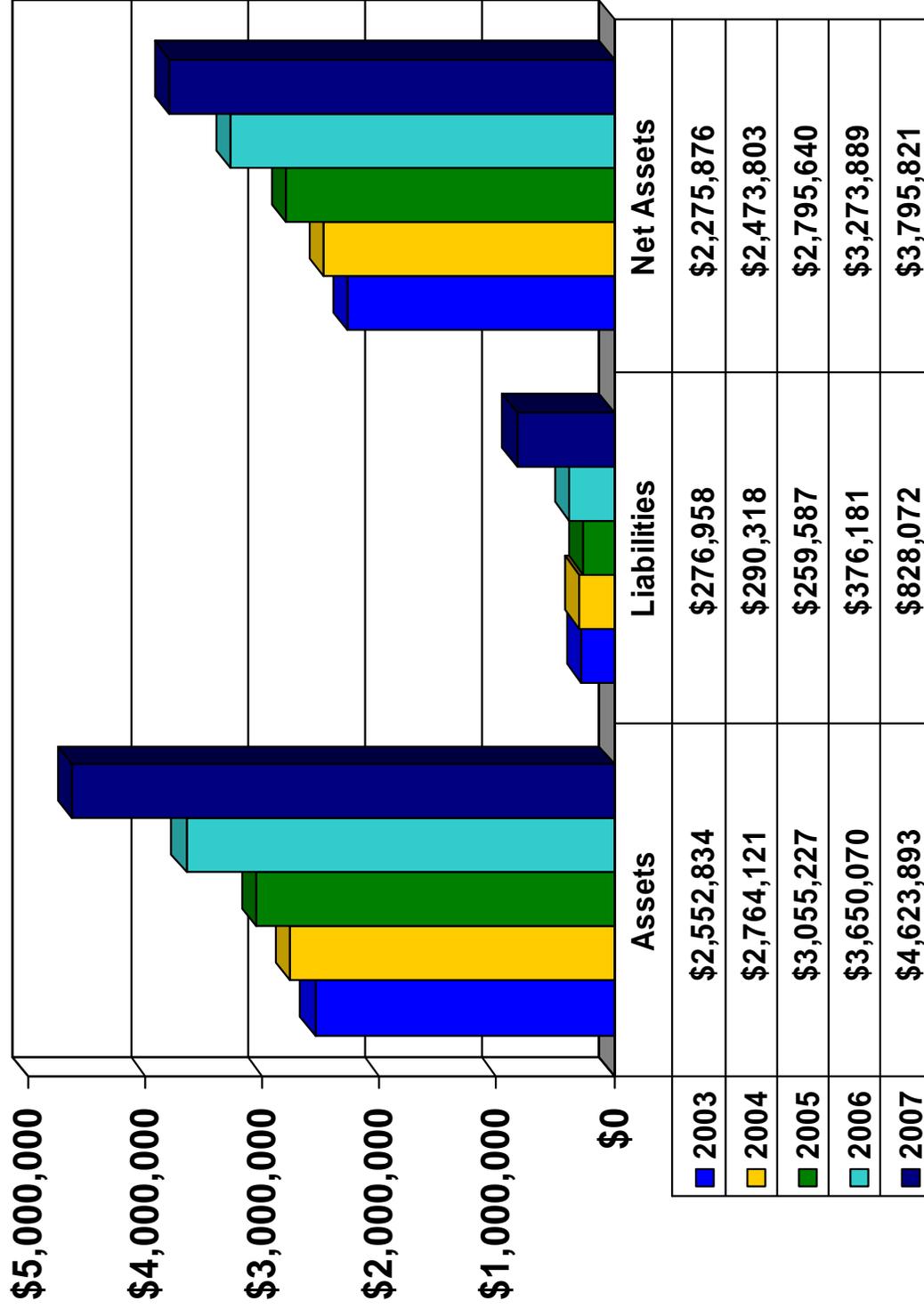
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## Significant Audit Results:

- Unqualified Audit Opinion On Financial Statements, OMB Circular A-133 And Florida Single Audit Act
- No Material Weaknesses Noted In The Internal Control Systems
- No Significant Matters Of Noncompliance Noted Pursuant To OMB A-133 or Florida's Single Audit Act
- Other Comments and Recommendations Discussed Later

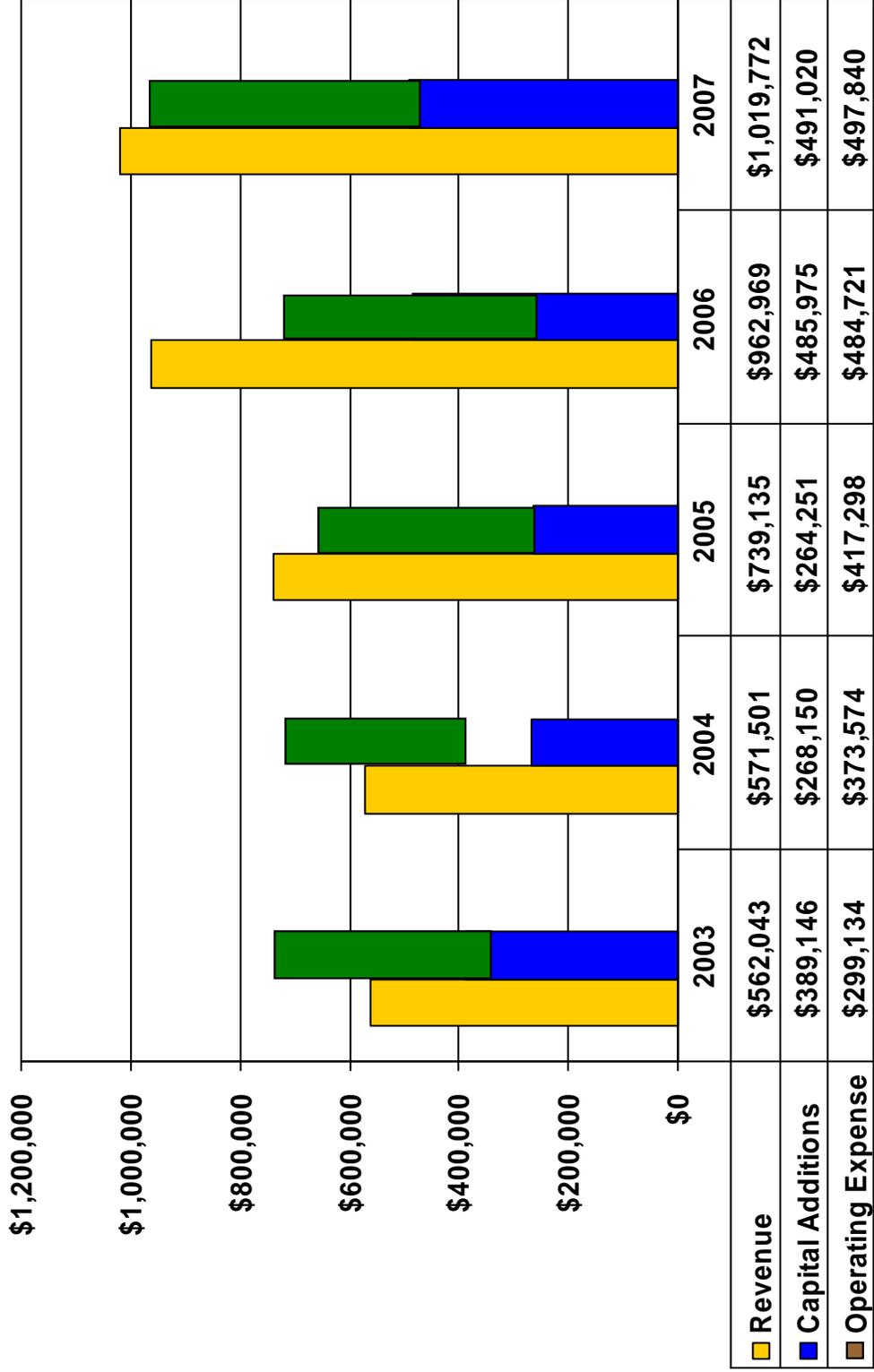
# South Florida Water Management District

## Statements of Financial Position (000's)



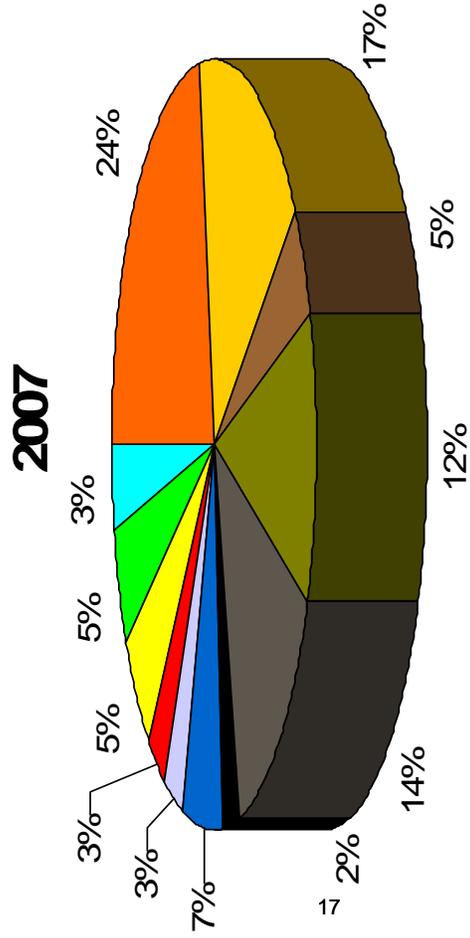
# South Florida Water Management District

## Statements of Activities (000's)



# South Florida Water Management District

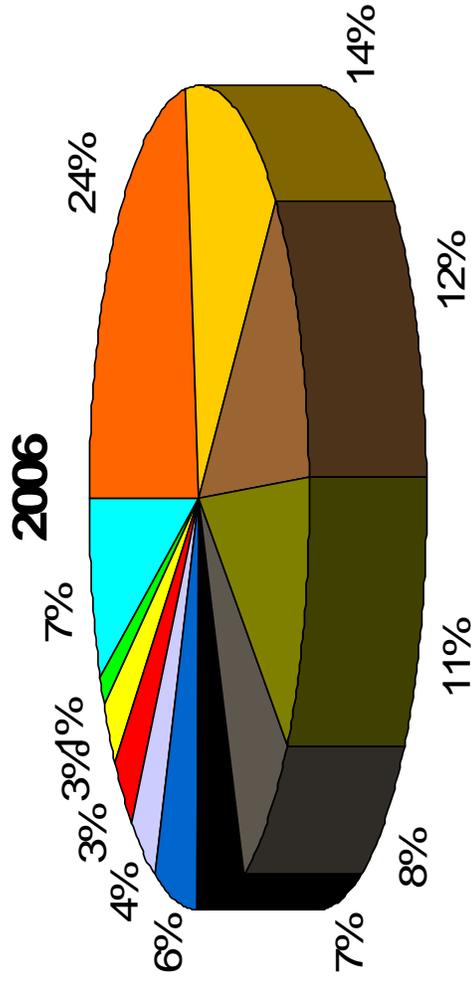
## Overview of Operating Expenses (000's)



Mission Support - \$114,078	Operations/Maintenance - \$83,000
CERP - \$28,865	Water Supply - \$59,868
District Everglades - \$71,929	Kissimmee Restoration - \$12,166
Costal Watersheds - \$32,484	Land Stewardship - \$14,480
Modeling and Scientific - \$15,550	Lake Okechobee - \$26,628
Interest on Long-term Debt \$25,466	Other Programs - \$17,326



**Grand Total \$497,840**



Mission Support - \$115,901	Operations/Maintenance - \$72,203
CERP - \$60,600	Water Supply - \$55,510
District Everglades - \$40,238	Kissimmee Restoration - \$36,033
Costal Watersheds - \$32,416	Land Stewardship - \$19,315
Modeling and Scientific - \$16,434	Lake Okechobee - \$14,477
Interest on Long-term Debt - \$5,862	Other Programs - \$36,070

**Grand Total \$484,721**

# South Florida Water Management District

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## Other Matters:

- **Our Responsibility Under U.S. Generally Accepted Auditing Standards**
  - Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles.
  
- **Significant Accounting Policies and Unusual Transactions**
  - Accounting policies used are those commonly used in the governmental industry- which are disclosed in the financial statements.
  - No unusual transactions were noted.
  
- **Management Judgments and Accounting Estimates**
  - Allocation of cost among federal and state funding sources.
  - Receivables from Grantor agencies.
  - Depreciation of Capital Assets.

# South Florida Water Management District

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## Other Matters: (cont'd)

- Significant Audit Adjustments
  - Significant audit adjustments were recorded
- Major Issues Discussed with Management Prior to Retention
  - Enterprise Resource Project Systems Progress
  - Progress of the Comprehensive Everglades Restoration Plan
  - Army Corps of Engineer cost sharing projects
  - Grants management
- Disagreements with Management and Audit Difficulties
  - No disagreements were encountered with management during the audit

# South Florida Water Management District

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## Internal Control Recommendations:

- Prior Year's Comments
  - New enterprise resource project system implementation issues (ongoing efforts)
  - Segregation of duties surrounding the inventory general ledger account reconciliation (comment has been corrected)
  - Timeliness of billing reimbursable grant / contract expense (ongoing efforts)
  - Self Insurance surpluses (ongoing efforts)
  - Timely submission of quarterly reports (ongoing efforts)

# South Florida Water Management District

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## ➤ Discussion Items

- \$117 million investment in the State Board of Administration’s Local Government Surplus Funds Trust Fund Investment Pool
- Implementation Of Other Post Employment Benefit Plans Disclosure

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
REPORTS REQUIRED BY OMB CIRCULAR A-133  
AND THE STATE OF FLORIDA SINGLE AUDIT ACT  
SEPTEMBER 30, 2007**

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
REPORTS REQUIRED BY OMB CIRCULAR A-133  
AND THE STATE OF FLORIDA SINGLE AUDIT ACT  
SEPTEMBER 30, 2007**

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**Independent Accountants' Report On Internal Control Over Financial Reporting  
And On Compliance Based On An Audit Of Financial Statements Performed  
In Accordance With Government Auditing Standards**

To the Governing Board of the  
South Florida Water Management District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Florida Water Management District (the District), as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated March 14, 2008.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the governing board of the District, management, federal, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 14, 2008

**Independent Accountants' Report On Compliance With Requirements Applicable To Each Major Program And State Project On Internal Control Over Compliance In Accordance With OMB Circular A-133 And Chapter 10.550, Rules Of The Auditor General**

To the Governing Board of the  
South Florida Water Management District

**Compliance**

We have audited the compliance of the South Florida Water Management District (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. The District's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and major state projects is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.550, Rules of the Auditor General. Those standards and OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and state project occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and major state projects for the year ended September 30, 2007.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program and state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the

effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over compliance that is described in the accompanying schedule of findings and questioned costs.

The District's response to the finding identified in the prior year audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

#### **Schedule of Expenditures Of Federal Awards And State Projects**

We have audited the financial statements of the South Florida Water Management District (the District), as of and for the year ended September 30, 2007, and have issued our report thereon dated March 14, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards and state projects is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations and Chapter 10.550, Rules of the Auditor General and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the governing board of the District, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 14, 2008

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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**Section I - Summary of Auditor's Results**

***Financial Statements***

**Type of auditor's report issued:**

Internal control over financial reporting:

**Unqualified Opinion**

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported
- Noncompliance material to financial statements noted?  Yes  No

***Federal Program***

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for major programs:

**Unqualified Opinion**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes  No

Identification of major programs:

***CFDA Numbers***

***Name of Federal Program or Cluster***

97.039 U.S. Department of Homeland Security – Hazard Mitigation Projects

97.036 U.S. Department of Homeland Security - Hurricane Disaster Relief

Dollar threshold used to distinguish between type A and type B programs:

\$495,000

Auditee qualified as low-risk auditee?

Yes  No

\*CFDA number was not available.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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**Section I - Summary of Auditor's Results (cont'd)**

***State Projects***

Internal control over major projects:

Material weaknesses identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for major projects: **Unqualified Opinion**

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550 "Rules of the Auditor General?"  Yes  No

Identification of major projects:

<b><i>CSFA Numbers</i></b>	<b><i>Name of State Projects</i></b>
37.022	Water Management District – Land Acquisition
37.039	Surface Water Restoration and Wastewater Projects
37.066	Water Protection and Sustainability Program

Dollar threshold used to distinguish between type A and type B projects: \$4,629,000

**Section II - Financial Statement Findings Current Year**

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

**Section III - Federal Awards and State Projects Current Year Finding and Questioned Costs**

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

**Section IV - Financial Statement Findings Prior Year**

There were no prior year findings related to the financial statements.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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**Section V - Federal Awards and State Projects Prior Year Finding and Questioned Costs**

**Finding 06-1 – Federal and State Grantor Quarterly Reports**

**Questioned Costs:** None noted.

**Criteria**

Federal and state grant agreements require that quarterly reports be submitted by certain dates specified in the grant agreements.

**Condition**

Quarterly progress reports were not submitted by the due date specified in the grant agreement during fiscal year 2007.

**Effect**

Noncompliance with the grantor requirement of timely submission of quarterly reports could result in disallowed costs and the loss of future funding.

**Current Year Status**

During fiscal year 2007, the District did not submit the required quarterly progress reports pursuant to program rules for the FEMA Hazardous Mitigation Grant (Catalog of Federal Domestic Assistance Number 97.039) was submitted to the grantor agency. We reviewed a sample of ten quarterly interest income reports for three grants related to the Surface Water and Wastewater Project (Catalog of State Financial Assistance Number 37.039) and noted that the ten reports were submitted to the grantor agency between one to fourteen days past the due date, with five of the reports being submitted five days or more past the due date.

**Recommendation**

Reports should be submitted to the grantor agencies within the required reporting period or an extension of time should be requested from the grantor agency.

**Management Response**

Management acknowledges that certain Federal Grantor Quarterly Reports were not submitted in a timely manner.

Accounting is developing a process which will notify the District's project managers of their reporting requirements. The process will include a database to track the grants, when the reports are due and include a follow-up process by the Grant Compliance Officer. The Grant Compliance Officer will provide a quarterly report to the Director of Finance showing all delinquencies.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>I. Cash Federal Financial Assistance</b>			
<b><u>US Department of Interior</u></b>			
Everglades Watershed Restoration-Program Income	*	LWCF-1	\$ 143,971
Tailisman-Program Income	*	FB-4	1,204,939
Frog Pond-Program Income		L2	215
<b>Subtotal</b>			<u>1,349,125</u>
<b><u>US Department of Agriculture</u></b>			
TAME	10.001	58-6629-2-204	327,378
WRP Restn Cost Share Agrmt For Allapattah Ranch East	10.072		619,328
WRP Restoration Cost Share Agreement For Steele Ranch	10.072		20,416
WRP Restn Cost Share Agrmt For Allapattah Ranch West	10.072		51,843
NRCS hurricane debris removal - Wilma	*	69-4209-6-1653	5,858,796
NRCS North Folk Coral Gables Canal Repair	*	69-4209-6-1670	1,010,270
<b>Subtotal</b>			<u>7,888,031</u>
<b><u>US Department of Homeland Security</u></b>			
Pass-through State of Florida Department of Community Affairs			
C4 Dredging--A&E and Land costs	97.039	04HM-M5-13-00-15-011	3,767,112
FEMA Mapping Modernization: Palm Beach County	97.045	EMA-2004-CA-5023	182,605
FEMA Map Modernization Mgmt Support	97.070	EMA-2005-CA-5230	35,313
FEMA Map Modernization Mgmt Support	97.045	EMA-2004-CA-5243	88,717
FEMA Cooperative Technical Partners: Highlands County	97.045	EMA-2005-CA-5612	8,090
FEMA/DCA -Hurricane Charlie	97.036	FEMA-1539-DR-FL	28,704
FEMA/DCA -Hurricane Francis	97.036	FEMA-1545-DR-FL	1,885,128
FEMA/DCA -Hurricane Jeanne	97.036	FEMA-1561-DR-FL	2,113
FEMA/DCA - Hurricane Wilma	97.036	FEMA-1609-DR-FL	1,592,960
Subtotal			<u>7,590,742</u>
<b>Total Cash Federal Financial Assistance</b>			<u>\$ 16,827,898</u>
<b>II. Non-Cash Federal Financial Assistance</b>			
<b><u>US Army Corps of Engineers</u></b>			
Cost Sharing Projects	*	Various	<u>\$ 1,959,710</u>

\*CFDA number was not available.

See accompanying notes to Schedule of Expenditures of Federal Awards and State Projects.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>CSFA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>III. State Financial Assistance</b>			
<b><u>Department of Transportation</u></b>			
Excess Toll Revenue	55.025		\$ 959,986
ETDM BDH68			13,355
Subtotal			<u>973,341</u>
<b><u>Department of Environmental Protection</u></b>			
<b>Water Management District - Land Acquisition</b>			
Save Our Everglades Trust Fund - Land	37.022	SOETF	74,218,481
Cost of Bonds	37.022	WMLTF	7,012,876
Florida Forever	37.022	FFTF	4,953,070
Subtotal			<u>86,184,427</u>
<b>Surface Water Restoration and Wastewater Projects</b>			
Water Protection Sustainability Trust Fund	37.066	WPSTF06	2,020,772
Alternative Water Supply Projects	37.066	AWS06	3,777,984
Alternative Water Supply Projects	37.066	AWS07	14,980,924
Various Surface Water Rest. & Waste Water Projects	37.039	SP455	31,599
Various Surface Water Rest. & Waste Water Projects	37.039	SFSWP1	287,754
Various Surface Water Rest. & Waste Water Projects	37.039	SFSWP2	452,345
Various Surface Water Rest. & Waste Water Projects	37.039	SFW31	1,502,205
Various Surface Water Rest. & Waste Water Projects	37.039	SFW51	5,082,594
Various Surface Water Rest. & Waste Water Projects	37.039	SFW61	4,257,427
Various Surface Water Rest. & Waste Water Projects	37.039	SFW71	5,447,435
Various Surface Water Rest. & Waste Water Projects	37.039	SFW51	45,327
Various Surface Water Rest. & Waste Water Projects	37.039	SFSWP1	1,751,566
Various Surface Water Rest. & Waste Water Projects	37.039	SFW31	5,401,421
Various Surface Water Rest. & Waste Water Projects	37.039	SFW61	622,142
Various Surface Water Rest. & Waste Water Projects	37.039	SFW71	1,115,862
Lake Okeechobee Fast Track	37.039	LP6120	3,446,305
Subtotal			<u>50,223,662</u>
<b>Water Management District Operations</b>			
Management Expenditures & Capital Improvements on SOR Lands	37.037	WMLTF	<u>15,990,677</u>
<b><u>FL. Department of Motor Vehicles</u></b>			
Everglades License Tag	76.013	Everglades License	186,695
Indian River Lagoon Tag	76.010	IRL License Plate	182,609
Subtotal			<u>369,304</u>
<b><u>FI Department of Agricultural Services</u></b>			
Lake Okeechobee Phosphorus Source Control Grant Program	42.017	012908	225,000
USGS Sub-Basin Monitoring Network - LO Watershed Project	42.017	11502	101,610
Taylor Creek Algae Turf Scrubber	42.017	012960	330,000
Raulerson Ranch	42.017	011813	267,853
Indiantown Citrus Growers Association	42.017		<u>267,853</u>
Subtotal			<u>924,463</u>
<b><u>FI Fish and Wildlife Conservation Commission</u></b>			
Eagle Bay Marsh Restoration - Muck	77.016	06258	498,642
Northwest Marsh Restoration - Muck	77.016	07005	1,979,906
Three Lakes Wildlife Mgmt	77.016	06217	124,454
Three Lakes Wildlife Mgmt	77.016	5259	27,882
Subtotal			<u>2,630,884</u>
<b>Total State Financial Assistance</b>			<u>\$ 157,296,758</u>
<b>Total Financial Assistance</b>			<u>\$ 176,084,366</u>

\*CSFA number was not available.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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See accompanying notes to Schedule of Expenditures of Federal Awards and State Projects.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE PROJECTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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**General**

The accompanying Schedule of Expenditures of Federal Awards and State Projects (the Schedule) presents the activity of all federal awards and state financial assistance programs of the South Florida Water Management District for the year ended September 30, 2007. All federal awards and state financial assistance expended from federal and state agencies, and federal awards passed through other government agencies are included in the Schedule.

**Basis**

The accompanying Schedule is presented on the modified accrual basis of accounting, which is described in Note 2 to the South Florida Water Management District's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and Chapter 10.550 "Rules of the Auditor General." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

**Cost Sharing Project**

Prior to 1998, the District entered into various project cooperation agreements with the U.S. Army Corps of Engineers (COE) for various projects. The projects range from Everglades Restoration feasibility studies to canal and pump station construction and repair. The programs are typically long-term in nature and often span several years. The terms of the cooperative agreements require the District to provide matching expenditures ranging from 12.8% to 50% of the total project cost. For some of the agreements, the District is allowed to provide half of the match through in-kind contributions. These in-kind contributions generally consist of personnel-related costs, such as engineering services provided by District employees.

At the beginning of each fiscal year, COE notifies the District of the anticipated cash contributions. Because the COE is responsible for administering the projects, the District's role is primarily to provide the monetary and in-kind matching requirements. District transfers are made via deposits into an escrow account. Contracts awarded through COE and the related expenditure documentation are not submitted to the District. Rather, supporting documentation for all related transactions is maintained by COE, as expenditures do not require the pre-approval of the District.

The amount reported as non-cash federal financial assistance on the Schedule of Expenditures of Federal Awards and State Financial Assistance is the District's share of expenditures during the fiscal year reported by COE to the District.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
MANAGEMENT LETTER IN ACCORDANCE WITH  
THE RULES OF THE AUDITOR GENERAL OF  
THE STATE OF FLORIDA  
SEPTEMBER 30, 2007**



One Southeast Third Avenue  
Suite 2100  
Miami, Florida 33131  
Telephone: (305) 374-1574  
Facsimile: (305) 372-8161

110 East Broward Boulevard  
Suite 1950  
Fort Lauderdale, Florida 33301  
Telephone: (954) 467-5490  
Facsimile: (954) 467-6184

Website: [www.sbccpa.com](http://www.sbccpa.com)

215 South Monroe Street  
Suite 600  
Tallahassee, Florida 32301  
Telephone: (850) 224-2994  
Facsimile: (850) 224-0099

### **Management Letter in Accordance with the Rules of the Auditor General of the State of Florida**

To the Governing Board of the  
South Florida Water Management District

We have audited the financial statements of the South Florida Water Management District (the District), as of and for the year ended September 30, 2007, and have issued our report thereon dated March 14, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Compliance and Internal Control over financial reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 14, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding management letter have been addressed in the Section, "Status of Prior Year's Management Comments."
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. Current year comments and recommendations have been addressed in the section, "Status of Prior Year's Management Comments."
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The District has no component units. Disclosure is made in Note 1 to the District's basic financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.



- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. We noted no indications of deteriorating financial conditions as a result of these procedures.

This management letter is intended solely for the information of the South Florida Water Management District and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Shampton Brunson Company, P.A.*

March 14, 2008



**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
COMMENTS AND RECOMMENDATIONS ON INTERNAL CONTROL  
SEPTEMBER 30, 2007**

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<b><u>No.</u></b>	<b><u>Prior Year Comments</u></b>	<b><u>Comment Is Still Relevant</u></b>	<b><u>Comment Addressed or No Longer Relevant</u></b>
2006-1	New Enterprise Resource Project System Implementation Issues	X	
2006-2	Review of Inventory General Ledger Account		X
2005 – 1	Timeliness of Billing Reimbursable Grant/Contract Expenses	X	
2004 – 2	Self Insurance Fund Charges and Reserves/Retained Earnings	X	

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
COMMENTS AND RECOMMENDATIONS ON INTERNAL CONTROL  
SEPTEMBER 30, 2007**

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**Status of Prior Year's Management Comments**

**2006-1      New Enterprise Resource Program System Implementation Issues**

**Observation**

On June 1, 2006, the District implemented a new Enterprise Resource Program (ERP) system. Accounting staff's lack of experience with the new system combined with issues common to new system implementations resulted in the following observations:

- Fiscal year 2007 general ledger postings were required approximately four months (January 2008) after September 30, 2007.
- District personnel were not able to generate certain financial reports and schedules from the new general ledger system as they are in the process of determining how the new system can generate such reports and schedules.

**Effect**

The above observations resulted in delays in completing the Comprehensive Annual Financial Report and our audit of such.

**Recommendation**

We recommend that the District conduct an evaluation of the existing ERP system and an analysis of projected needs for the future. This evaluation should focus on ensuring that there are sufficient resources to operate and maintain the system currently in place while taking into consideration resource demands on future system enhancements and upgrades. Also, additional training on the new ERP for District accounting staff should be required as well as the development of reports that provide information to management and other interested parties. Further, we suggest that efforts be made to document the flow of transactions in the Treasury and Fixed Asset modules. This documentation should detail how Treasury and Fixed Asset transactions post to the general ledger and how those accounts are presented in the CAFR. Finally, eliminate accounts not required under governmental accounting standards.

**Current Year's Status and Management's Response**

Since the implementation of the new ERP system in June 2006 we have gained a much better understanding of the system including integration between the various modules such as general ledger, budget, cost accounting, materials management, plant management, grants management, asset management, treasury management, and HR modules. Further, Accounting has realigned its resources and created a Fixed Asset/Project Systems Unit. Part of that unit's responsibility will be to document fixed asset and project transactional flows.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
COMMENTS AND RECOMMENDATIONS ON INTERNAL CONTROL  
SEPTEMBER 30, 2007**

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**Status of Prior Year's Management Comments (cont'd)**

**2006-2      Review of Inventory General Ledger Account**

**Observation**

As of September 30, 2006, the District had consumable inventory of approximately \$ 3.7 million. Consumable inventory consists of fuel, chemicals and supplies held for consumption. We noted that a physical inventory of consumable supplies was performed by the operations and maintenance department personnel of the District. With the implementation of the new Enterprise Resource Program (ERP) system the operations and maintenance department personnel is responsible for initiating the purchase and reconciling the year end physical inventory observation to the inventory general ledger account.

**Effect**

Increase risk of misappropriation or error by not having someone independent of the operations and maintenance department perform the reconciliation and determining whether inventory items are properly capitalized as of the end of the year and whether obsolete items should be written off.

**Recommendation**

We suggest that District accounting staff review the new inventory processes that resulted from the implementation of the new ERP to identify and mitigate any internal control weaknesses.

**Current Year's Status and Management's Response**

A new process has been established to strengthen internal controls over inventory by creating a greater segregation of duties. The Storekeeper maintains physical control over the inventory and staff from the Operations and Maintenance Finance Unit supervises the inventory count. During the current year, Operations and Maintenance Finance Unit staff did physical inventory counts and adjusted inventory levels as appropriate. In the future, inventory write-offs will be performed by accounting staff.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
COMMENTS AND RECOMMENDATIONS ON INTERNAL CONTROL  
SEPTEMBER 30, 2007**

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**Status of Prior Year's Management Comments (cont'd)**

**2005-1. Timeliness of Billing Reimbursable Grant/Contract Expenses**

**Observation**

We observed several grantor agencies reimbursable costs that were not submitted in a timely manner (vendor invoices submitted more than ninety days after the costs were incurred).

**Effect**

This condition may result in lost revenue that could be earned on reimbursed expenses if not billed and collected in a timely manner and/or additional costs could be incurred on funds borrowed to finance projects due to reimbursed costs not being billed and collected in a timely manner.

**Recommendation**

We suggest that procedures be established to monitor the billing and collection efforts of reimbursable grant/contract expenses. Additionally, we suggest that management evaluate the resources needed to bill and collect reimbursable grant/contract expenses.

**Current Year's Status and Management's Response**

We are still experiencing delays in billing grantors for grant reimbursement. The primary reason for this is a lack of reports available from our relatively new ERP system that provide us with the appropriate information. Also contributing to the delay in grant billing is a lack of adequate documentation from sub-grantees.

Before the implementation of our new ERP system in June 2006, grant data was kept in a variety of places including the legacy financial system, spreadsheets, and databases. As a result, much of this historical data was not transferred in the grants module of our new ERP system. While all new grant transactions are being entered into the system much of the historical data must be tracked, converted, and combined with the new data to get a complete picture of a grant. In addition certain business processes were re-designed that resulted in Accounting not getting certain documentation that is required to bill a grantor.

Currently, we are revisiting these processes and continuing to load historical data into our new system. We are also in the process of developing a grant compliance database. This database will contain all open grants, the dates when grant billings are due, the name of the person responsible is for reviewing grant related expenses, and the date when invoices are actually sent.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT  
COMMENTS AND RECOMMENDATIONS ON INTERNAL CONTROL  
SEPTEMBER 30, 2007**

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**Status of Prior Year's Management Comments (cont'd)**

**2004-2. Self Insurance Fund Charges and Reserves/ Retained Earnings**

**Observation**

The District's self-insurance fund appears to be financially sound. It appears, however, that given the District's recent past history of claims paid and settled, and given the most recent actuarial report, the estimated liability of approximately \$6.6 million seems very conservative. More of a concern is that the fund has about \$2.5 million in excess of this liability in retained earnings (fund balance once it is consolidated in the General Fund).

**Effect**

Improper insurance costs incurred by funds or the erroneous allocation of insurance costs among funds.

**Recommendation**

The self insurance funds are established to recover cost from the various funds and should not have additional reserves/retained earnings or profits. We suggest that management assess the reasonableness of self insurance fund charges and establish a policy of additional reserves if warranted.

**Management's Response**

Management concurs with this comment. Due to its extensive geographic area and large number of assets, the District is subject to many risks. Management believes it is prudent to have self insurance reserves in excess of the established actuarial reserves to meet unanticipated claims. Management will assess the reasonableness of such reserves and establish a principal of sound financial management setting adequate and reasonable levels for self insurance reserves.

**Current Year's Status and Management Response**

Management continues to believe that reserves up to \$10 million are appropriate for an entity of our size and risk potential. Review of a policy statement on self-insurance reserves is on-going.



5. **General Engineering and Professional Services/Small Business Enterprise Program Update** - Frank Hayden, Department Director, Procurement Department

See supporting document: [General Engineering and Professional Services.pdf](#)

# General Engineering and Professional Services / Small Business Program Update

Presented by Frank Hayden  
Director of Procurement

April 9, 2008

# **Overview:**

## **Update on Small Business Enterprise (SBE) Program**

## **Update on General Engineering and Professional Services**

# Small Business Enterprise Program

- **Minority Business Enterprise (MBE) Program Repealed 2005**
- **SBE Program adopted May 2006**
- **SBE Rule effective August 3, 2006**
- **Amendment approved July 2007**



# Program Components

- Bid Equalization Program
- Sheltered Market
- Participation – RFB, RFP
- Certification of Small Businesses



# Bid Equalization Program



- “Bid Equalization Program” means a procurement initiative designed to assist Small Business Enterprises (SBE) when bidding for contracts.

# Scale for Bid Equalization



- **1%** Contracts with an estimated value of \$2,000,000 or more
- **5%** Contracts with an estimated value of between \$500,001 and 1,999,999
- **10%** Contracts with an estimated value of \$500,000 or less

# Bid Equalization Example for 10%

## Bid Equalization Example using 10% as Incentive Bonus

Bid Incentive example	Lowest Non-Certified Firm	Lowest Certified SBE Firm
Bid	\$100,000	\$103,000
Bid Equalization (10%)	-0-	<10,300>
Final Bid Tabulation	100,000	\$92,700

■ In this example, with a 10% bid incentive the Certified SBE is awarded as the lowest bid.

# Sheltered Market Program



- Designating Contracts and Purchases for Sheltered Market
- Identify at least three (3) Small Business Enterprises available to perform work within the industry identified in the solicitation

# Participation

- For RFPs, there shall be a maximum of 10 points awarded for 25% of total contracted amount.



10 POINTS FOR SBE PARTICIPATION	
≥ 25%	10 Points
≥ 23%	9 Points
≥ 21%	8 Points
≥ 19%	7 Points
≥ 17%	6 Points
≥ 15%	5 Points
≥ 13%	4 Points
≥ 11%	3 Points
≥ 9%	2 Points
≥ 7%	1 Points

# Participation

- For contracts awarded based on RFBs, there shall be an SBE goal based on availability not to exceed 25% of total contracted amount.

COMMODITY CODE	COMMODITY CODE DESCRIPTION	AVAILABLE VENDORS	AVAILABLE CERTIFIED SBE VENDORS	% AVAILABLE SBE VENDORS
96105	Archeological/Historical Studies	43	7	16.3%
96138	Facilitator Services	90	17	18.9%
		133	24	18.0%

# Criteria for Small Business Enterprise Certification



- The SBE must demonstrate that the previous three-year average gross receipts of the business, together with its affiliates, does not exceed:
  - \$13 million for Construction,
  - \$5 million for Commodities, and
  - \$6 million for professional services.

## Milestones

- 1,260 Certified Small Businesses as of March 17, 2008
- Participation by Small Businesses in Information Technology and General Engineering Professional Services Solicitations

# Milestones

- Information Technology Services Solicitation submitted November 2006
  - 57 Proposals Received
  - 34 Total Awards
  - 25 SBE Prime Contracts awarded
  - 73% of awarded firms were SBE

## Milestones

- General Engineering Professional Services Solicitation submitted February 2007
- 381 Proposals Received
  - 139 Firms Short Listed
  - 104 Recommended Awards proposed
- 309 Individual Firms (prime and subcontractors)
- 168 of the 309 firms are SBEs (54%)
- 20 SBE Prime Contracts (19%)
- Approximately 81 or 26% are new firms to the District

# Web Site Information – Pending Solicitations

## Pending Solicitations

The items listed below are of a pending nature only. They are provided as an informational service to you. There is no guarantee these items will be issued during the month listed, or will not be canceled in the future. For a list of Current solicitation items available, please see our Current Solicitation Calendar page.

Date Updated: 10-MAR-2008

Type	Solicitation Number	Project Title	Issue Date	Type of Service	Contract Specialist
RFB	TBD	STA 3/4 Public Use Facility	Mar 2008	Construction	Cathy Richards
RFB	TBD	C4 Gravity Wall	Mar 2008	Construction	Cathy Richards
RFB	TBD	SFWMD Headquarters B-1 Bldg Roof Replacement	Mar 2008	Construction	Cathy Richards
RFB	TBD	Clewiston Flat Mowing	Mar 2008	Contractual	Jennifer Kilian
RFB	TBD	Miami Flat Mowing	Mar 2008	Contractual	Jennifer Kilian
RFB	TBD	West Palm Beach Flat Mowing	Mar 2008	Contractual	Jennifer Kilian
RFB	TBD	Golden Gate 6&7 Weir Replacement	Mar 2008	Construction	Cathy Richards
RFB	TBD	S-63A Concrete Repair	Mar 2008	Construction	Cathy Richards
RFB	TBD	G-35 Culvert Replacement	Mar 2008	Construction	Cathy Richards
RFP	TBD	Compartment C Pump Equipment System	Mar 2008	Contractual	Bonnie Batchelor
RFB	TBD	G-92 Culvert Replacement	Mar 2008	Construction	Cathy Richards
RFB	TBD	C-100A Canal Bank Stabilization	Mar 2008	Construction	Cathy Richards
RFB	TBD	Clewiston Generator Replacement	Mar 2008	Construction	Cathy Richards
RFB	TBD	Golden Gate 3 Weir	Mar 2008	Construction	Cathy Richards
RFP	TBD	Operations Decision Support System	Apr 2008	Contractual	Penny Burger

# Web Site Information – Current Solicitations

Procurement & Contracts
Pending Solicitations
Opportunities at Other Districts

- ▶ General Guidelines & Info.
- ▶ Solicitations
  - ▶ Solicitation Calendar
  - ▶ Award Information
- ▶ Small Business Enterprise
- ▶ District Vendor Registration
- ▶ FAQs
- ▶ Toll Free Hotline

**Current Solicitations**

**March 19, 2008**

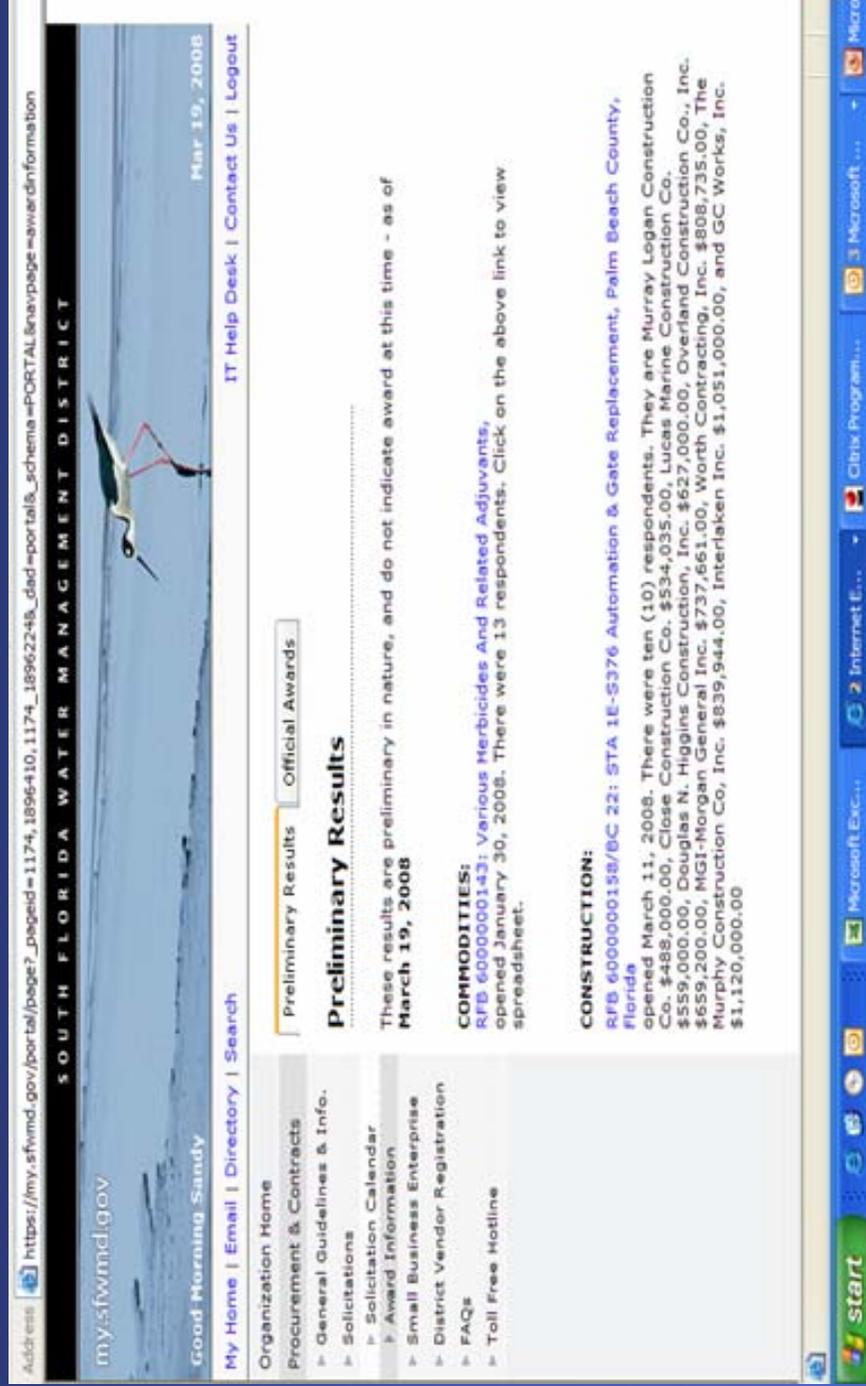
*Note: To view Solicitation Packages, Addenda and Pre-Bid/Pre-Proposal Conference Attendee Lists, you will need Adobe Acrobat Reader, which is available below.*

Expired or lost password [click here](#)

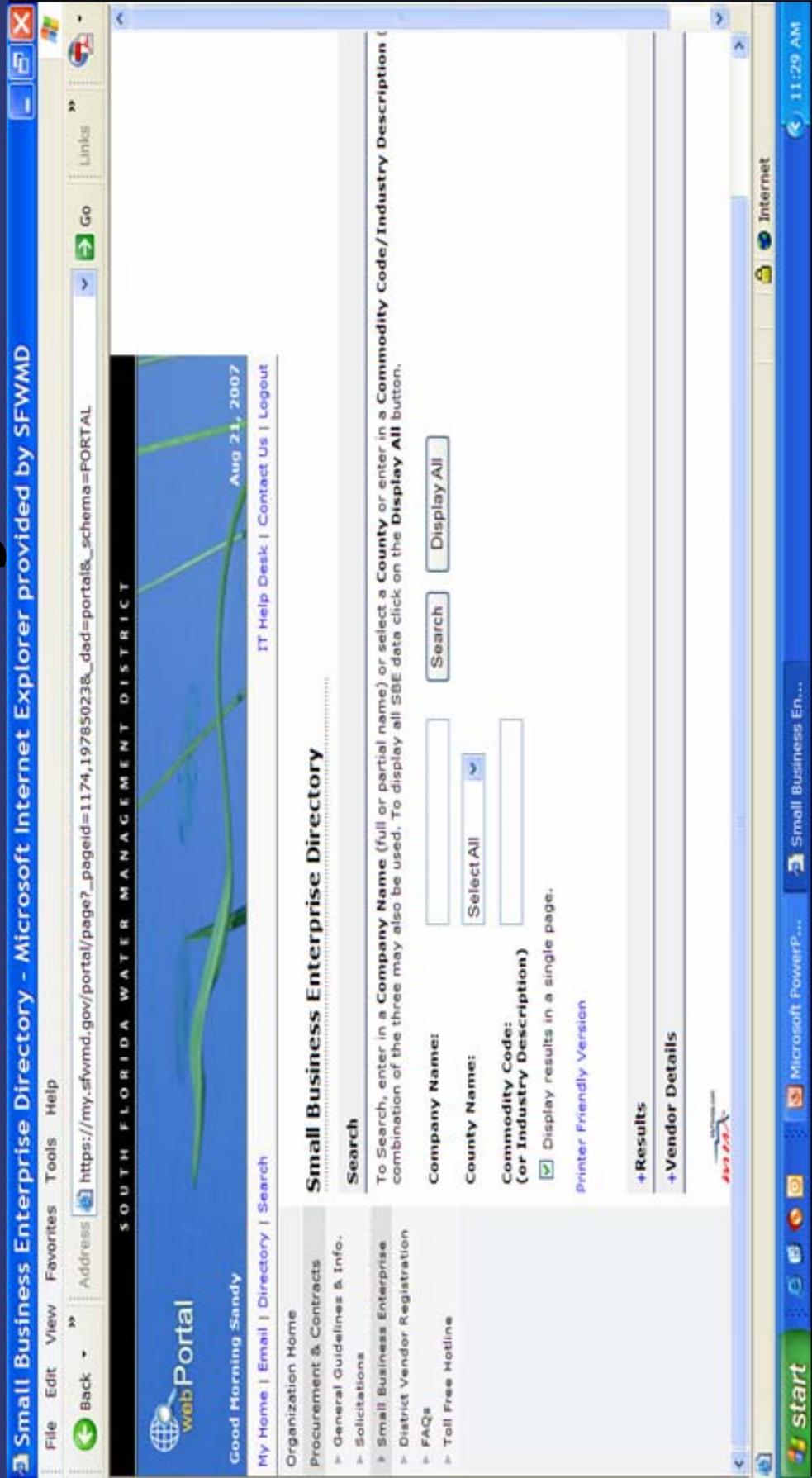
Failure to file a protest to any provisions of the solicitation documents within the time prescribed in Section 120.57 (3), Florida Statutes, shall constitute a waiver of proceedings under Chapter 120, Florida Statutes.

Type	Solicitation#	Project & Description	Issue Date:	Pre-Bid Attendees:
RFB	6000000156	Flat Mowing Services - Okeechobee Field Station East & West Service Areas	2/29/08 10:21 a.m.	N/A
			Pre-Bid Date:	3/14/08 10:00 a.m. Optional
			Responses Due:	3/28/08 2:30 p.m.
			Addenda Issued: (Release Time)	1 (3/3/08 3:09 p.m.)
			Contract Specialist: & Type of Service	Jennifer Kilian /Contractual/kr
			Cost:	N/A
			Issue Date:	3/4/08 8:24 a.m.
			Pre-Bid Attendees:	DOC080318bbb.pdf

# Web Information – Award Information



# Web Information - SBE Directory



# General Engineering Professional Services (GEPs) Update

- Inspector General Office conducted an Audit of the Administration of the General Engineering Services (GES) Contracts
- The results were reported February 2007 to the Finance & Audit Committee
- There were Five Recommendations given by the Inspector General (IG)
- Management agreed and provided a response

## **Audit of Administration of GES Contracts –**

- **There are three recommendations that will be discussed**
  - **Ensure Equitable Distribution of Work**
  - **Monitor and Track MBE/SBE Participation**
  - **Supplement Procurement Staff to monitor SBE utilization process**

# Ensure Equitable Distribution of Work

- In a memorandum dated August 7, 2007 and signed by Carol Ann Wehle, the Executive Director emphasized to project managers the Governing Board's goal of spreading work equitably among all firms.



# Ensure Equitable Distribution of Work

- **The process of Spreading the Work is as follows:**
  1. **Project Managers request the use of a General Engineering & Professional Services (GEPs) contract**
  2. **If the project manager submits a request for a particular firm, justification must be provided on the sourcing request form.**

# Ensure Equitable Distribution of Work

- 3.** The Procurement Lead reviews the request and checks the volume of work of each firm under GEPS and the GES contracts
- 4.** The Procurement Lead then notes concurrence with the project manager's request or recommends another firm and forwards the request to the Procurement Director.

# Ensure Equitable Distribution of Work



- 5.** The Director reviews the request and approves work order assignment.
- 6.** Procurements tracks all work order assignments and work order executions and reports to the District Procurement Subcommittee weekly and the Governing Board monthly.

# Monitor and Track SBE Participation



- Staff utilizes the Supplier Diversity & Outreach (SDO) database to analyze contract compliance for GES contracts
- For the new GEPS contracts subcontractor payments will be tracked in SAP – vendor database

# Monitor and Track SBE Participation

- Contract Compliance is performed by contacting the prime and verifying SBE utilization
- Then the SBE is contacted to verify receipt of payments by the prime



# Supplement Procurement Staff to monitor SBE utilization process

- Christine Howard was hired as Sr. Compliance Analyst in the Procurement's Small Business Enterprise Section on February 25, 2008



# Questions?



**6. Implementation of Recommendations from Independent Review of Investment Policies and Strategies** - Paul E. Dumars, Sr., Chief Financial Officer, Executive Office and Stephen Freilich, Treasurer, Executive Office

See supporting document: [April 2008 A&F Meeting\\_ Update of Investment Strategies.pdf](#)

See supporting document: [TIC Charter.pdf](#)

See supporting document: [Treasury response to Investment Review March 2008.pdf](#)

# Implementation of Recommended Investment Policies and Strategies

## Audit and Finance Committee

April 9, 2008

Paul E. Dumars, Sr., Chief Financial Officer  
Stephen Freilich, Treasurer



## Response to Key Recommendations

- Established a Treasury Investment Committee composed of internal staff
  - First meeting was conducted on April 3rd
- Provide Quarterly Performance Reports
  - Will be presented at Audit & Finance Committee meetings

## Responses (...cont)

- Revise Benchmarks
  - new investment policy will include two new performance benchmarks;
  - (1) Local Government Money Market index - short term
  - (2) Merrill Lynch 1-3 year Treasury Index - long term

## Responses (...cont)

- **Revise Investment Policy – highlights include;**
  - **Reduce LGIP investments from 100% to 25%**
  - **Corporate notes – limited to 10%, 3yr maturity**
  - **Increase Money Markets to 75%, rating to AAA**
  - **Mortgage Investments – Reduce from 35% to 30%**

## Other Recommendations

- Improve cashflow forecasting Districtwide
- Increase credit review of investments and brokers
- Document short and long term investment plan
- Develop Internal Controls manual
- Obtain an investment audit bi-annually

**SOUTH FLORIDA WATER MANAGEMENT  
TREASURY INVESTMENT COMMITTEE CHARTER**

*April 2008*

**PURPOSE** – The Treasury Investment Committee (TIC) serves as an internal review and advisory committee to the District’s treasury operations to aid in the effective management of the District’s surplus cash investment portfolio. The goal of the TIC will be to insure that the Treasury function is in alignment with the financial needs of the District.

The TIC will meet quarterly to review all relevant investment issues. Treasury staff will present finding and recommendations of the TIC to the District’s Audit and Finance Committee who ultimately serve as an oversight committee to the District’s Governing Board.

It is not under the TIC’s direction to make individual investment recommendations as to the purchase and sale of individual securities, but rather to provide general oversight as outlined below in the scope of the committee’s responsibilities.

**SCOPE** – The scope of responsibility for the committee will include a review of;

- Cashflow forecasting
- Broker/dealer qualifications and coverage
- Overall review of the investment markets
- Trading activity
- Portfolio strategy
- Performance Benchmarks
- Compliance with statutory and policy guidelines
- Credit review of individual investments
- Overall asset allocation
- Policy changes as needed
- Review of investments earnings and forecasts
- Financial reporting of investments

**COMPOSITION** - The TIC will be composed of six staff members of the District to include the Chief Financial Officer and Treasurer. Additional members will be appointed who have a sufficient background in financial matters. Members will normally include staff from finance, accounting and budget that are deemed to have the skills and expertise to add value to the committee.

**TREASURY INVESTMENT COMMITTEE MEMBERS**

- Chief Financial Officer
- Treasurer
- Assistant Treasurer
- Finance Director
- Budget Director
- Staff Analyst, CPA, MA

## MEMORANDUM

**TO:** Governing Board Members  
**FROM:** Paul E. Dumars, Sr.  
**DATE:** April 9, 2008  
**SUBJECT:** Update on the District's Investment Portfolio Review and Evaluation

Attached is a staff update and response to the recommendations made by PFM Asset Management concerning modifications to the District's investment policy and review of investment procedures. The report was presented to the Audit and Finance Committee on February 13, 2008.

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### **Overview**

PFM was hired by the District to review and make recommendations to update and improve the investment process with the goal of ensuring that the District's cash funds are managed safely and prudently. An overview of the recommendations and a summary response from staff is listed below.

### **Key Recommendations**

1. Revise the Investment Policy Statement to include the following:
  - (A) Establish a Treasury Investment Committee
  - (B) Provide monthly and quarterly performance reports
  - (C) Revise benchmarks
  - (D) Revisions to permitted Investments
2. Develop a program to obtain the necessary cash flow information from Department heads.
3. Increase the formality of the credit review process for securities, broker-dealers, and counterparties.
4. Foster greater communication of investment reporting information between the Treasurer and the District.
5. Develop and document an investment plan for both the short-term and long-term portfolios.
6. Develop an internal controls operational procedures manual as required by Florida Statutes.

### **Review and Response to Recommendations**

- 1A. *Recommendation* – Establish a Treasury Investment Committee

*Staff Response* – Staff agrees with the recommendation. A sub-advisory committee will be created consisting of internal District staff to include the CFO, Treasurer and key District personnel knowledgeable in finance. Meetings will be held quarterly. A charter will be created to outline the purpose and function of the committee. All recommendations will be reported quarterly to the Audit and Finance Committee.

1B. *Recommendation* - Provide monthly and quarterly performance reports

*Staff Response* – Staff agrees that it is important to provide a comprehensive report on investment holdings, strategy and performance on a quarterly basis. The Audit and Finance Committee members were in concurrence that quarterly reports rather than monthly were sufficient to meet the oversight objective of the committee.

1C. *Recommendation* - Revise benchmarks.

The current portfolio benchmarks are the State of Florida’s Local Government Investment Pool, the “SBA” and an average of the 2-year US Treasury. In discussions with the advisor it is recommended that the District split the portfolio into two separate funds for reporting purposes.

*Staff Response* – Staff is in agreement with this approach. Policy changes will be made to have the District benchmarked to an appropriate short-term index which is suitable for Local Government funds. In addition, the longer dated portfolio will be benchmarked to an index such as the widely used Merrill Lynch 1-3 year Treasury index.

1D. *Recommendation* – Revisions to Permitted Investments.

On pages 7-8 of the PFM report there is a matrix outlining the recommended changes to several investment asset classes. The responses below address those investments where a change is being recommended.

- **Local Government Investment Pool** – reduce permitted holdings from 100% to 25%, require a AAA rating
- Staff agrees
- **Commercial Paper** – prohibit investment into asset backed commercial paper and provide credit and ratings support for holdings
- Staff Agrees
- **Corporate Notes** – Increase allowed holding from 5% to 10%, reduce maximum maturity from 5 years to 3 years, and provide credit and ratings support for holdings
- Staff Agrees
- **Money Market Mutual Funds** – Increase rating from AA to AAA, increase total allowable investments from 50% to 75% and increase the per fund limit from 5% to 25%
- Staff Agrees

- **Master Repurchase Agreement** – expand language to include a restriction of a total of 20% of the portfolio and 10% per issuer
- Staff Agrees
- **Hedging Instruments** – Transfer to the Debt Policy
- *Staff would recommend to add clarifying language* - The District's debt policy currently includes language which specifically addresses investment into hedge instruments specifically for the purpose of hedging debt transactions. Staff will agree to add clarifying language that specifies that investments in this class are only as they relate to the hedging of District issued debt instruments.
- **Reverse Repurchase Agreements**– remove from policy
- *Staff would like to keep the policy language as is* – The use of this instrument is done on an extremely limited and short-term basis for the express purpose of cash management. On rare occasions District investments may be pledged as collateral for a very short-term loan i.e. 1-30 days to fund unexpected large cash expenditure. These Repo transactions are an excellent financing vehicle and are used to avoid unnecessary losses on investments sold prior to maturity. Staff feels the policy language is sufficient as written and would like the ability to continue to have the use of this cash management tool when needed.
- **Mortgage Backed Securities** - Reduce allocation from 35% to 25% of the total portfolio, limit types to agency only investments and develop policies and procedures for evaluation and trading
- *Staff acknowledges the need to expand and update the language related to this asset class.* The PFM report acknowledges that MBS investments can offer good return with limited risk and promotes diversification. Staff would like to add language to further identify these investments as a separate asset class from direct investment into US Government Sponsored Enterprises.

Further, in recognizing the benefit of safe, higher yielding investments that provide cashflow staff would propose the following: Limit the investment class to 30%, allow for non-agency MBS investments but limit them to 5% of the portfolio with an additional layer of credit review. As an added procedure, all MBS investments will receive additional analysis and review with reports made to the Treasury Investment Committee and Audit & Finance Committee on an on-going basis.

2. *Recommendation* - Develop a program to obtain the necessary cash flow information from Department heads.

*Staff Response* – Staff strongly recognizes the need for improvements to the District's current annual cashflow forecast. Currently, the full scope of forecasting expenditures by division or functional area goes beyond the resources currently available to the Treasury staff.

We agree that the District would benefit greatly if cash forecasting and expenditures were better communicated to Treasury and upper level management. This would be recognized through noticeable increases in investment returns, improvements to project costs, lower debt service payments and numerous other benefits that organizations realize when accurate cash forecasts and tight financial system controls are fully utilized.

There has been an on-going effort by Treasury and the finance staff to improve the current cash forecasting model but further improvements can be made. It is conservatively estimated that improvements to cash flow forecasting would add \$2M a year to investment earnings. Total cost savings and investment earnings could potentially be much higher.

The report recognizes that staff will need more management support in its goal of obtaining better information from departments within the District. Staff will seek help from management in initiating this process. In addition, staff proposes to work with budget, accounting, and the newly created Treasury Investment Committee to look for areas of improvement and make recommendations that can be adopted District wide.

3. *Recommendation* - Increase the formality of the credit review process for securities, broker-dealers, and counterparties.

*Staff Response* – Staff agrees with the recommendation. A more formal credit review process will be established as needed for securities and counterparties. In addition, a rigid broker-dealer qualification form will be created and used as part of the qualification process when approving any firm attempting to do business with the District. A full review of firms currently servicing the District will be conducted.

Going forward, procedures will be put into place to perform a quantitative and qualitative review of all broker-dealer firms annually. Firms or individual brokers who do not meet credit standards or who do not add value to the needs of the Treasury and investment staff will be removed from the approved list. In addition safeguards will be put into place so that the treasury staff is not induced to do business with unqualified brokers.

4. *Recommendation* - Foster greater communication of investment reporting information between the Treasurer and the District.

*Staff response* – The initial recommendation was for a detailed monthly report to be presented to District's board members on a monthly basis. Based on feedback from members of the audit and finance committee, staff will distribute a detailed investment report to the committee on a quarterly basis. This report will include, but is not limited to issues related to policy, compliance, trading activity and current market conditions. A full presentation will be given to the Audit and Finance Committee members on a semi-annual basis.

As recommended, the report will also include a brief discussion of the investment strategy employed during the period and planned changes to the strategy. Similar reports will be reviewed quarterly with the Treasury Investment Committee.

5. *Recommendation* - Develop and document an investment plan for both the short-term and long-term portfolios.

*Staff response* – Staff agrees with the recommendations. The benefit to the District will be enhanced by better cashflow forecasting and the ability to invest in longer term securities where appropriate. This could potentially result in increased investment earnings.

A policy change will be recommended and revisions to the daily investment strategy will be made to reflect a two portfolio strategy approach. As noted above, the new benchmarks will be the Standard and Poor's LGIP index for short term funds and the Merrill Lynch 1-3 year Treasury index for the longer duration portfolio.

6. *Recommendation* - Develop an internal controls operational procedures manual as required by Florida Statutes.

*Staff response* – Staff agrees with the recommendation. Steps have been initiated to develop and document a full procedures manual for all investment related activities. As suggested, the procedures manual will include items related to compliance monitoring, credit review and notification of material events.



7. **Modifications to Inspector General's Annual Audit Work Plan - John Williams, Inspector General**

See supporting document: [2008 Annual Audit Plan - Proposed Revision.pdf](#)

**South Florida Water Management District**

**Office of Inspector General**

**Audit Plan for Fiscal Year 2008**

**Proposed Revisions**

Program	Resource Area	Dept/Division	Title of Project	Background	Objectives
<b>Proposed New Audit - 2008</b>					
Various	Operations & Maintenance	Operations & Maintenance/ SCADA & Hydro Management	Audit of SCADA Implementation and Operations	The SCADA & Hydro Data Management Department manages the infrastructure that remotely operates District water control structures through Supervisory Control and Data Acquisition systems (SCADA), and provides operations and hydrometeorological data.	Examine the internal controls over the SCADA implementation and operation processes.
<b>Propose Deferring Audit to 2009</b>					
Operations & Maintenance	Operations & Maintenance	Vegetation Management	Audit of the Vegetation Management Program	The District's Vegetation Management Division is responsible for managing and controlling invasive non-native vegetation. The Florida Department of Environmental Protection also contracts with the District to perform vegetation treatments. The District also outsources some of the vegetation treatment work.	The audit will assess whether: (1) The program is meeting its goals (2) Reporting requirements are being met.

<b>South Florida Water Management District  Office of Inspector General  Audit Plan for Fiscal Year 2008  Proposed Revisions</b>		
<b>Title of Project</b>	<b>Correlation With Strategic Plan</b>	<b>Rational for Proposing Audit</b>
<b>Audit of SCADA Implementation and Operations</b>	<b>Proposed New Audit - 2008</b> Electronics Communications and control is a component of the Operations and Maintenance program. The system also supports most of the other District programs since the hydrologic databases are used for planning and regulatory functions.	Information discovered during a recent investigation revealed the necessity to review internal controls in the processes related to installing, maintaining, and accounting for SCADA operations.
<b>Audit of the Vegetation Management Program</b>	<b>Propose Deferring Audit to 2009</b> The Strategic Plan contains a goal of treating 60,000 acres of vegetation annually.	This program has not been reviewed since 1999.



**8. Inspector General's Office Update - John Williams, Inspector General**



## 9. Old Business / New Business



## 10. Public Comment