

SOUTH FLORIDA WATER MANAGEMENT DISTRICT



**Office of Inspector General
Annual Report**

Fiscal Year 2006

Prepared by
Office of Inspector General

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INTRODUCTION

In accordance with the Section 20.055 F.S., this report summarizes the activities of the South Florida Water Management District's (the "District") Office of Inspector General (the "OIG") for the fiscal year ended September 30, 2006.

The OIG serves as an independent appraisal unit within the District to examine and evaluate its activities. The Inspector General reports directly to the District's Governing Board (the "Board"), through the Board's Audit Committee appointed by the Chair of the Board. The Audit Committee operates under an Audit Committee Charter established by the Board.

The Internal Audit Charter adopted by the Governing Board established an internal audit function within the OIG to provide a central point for coordination of activities that promote accountability, integrity, and efficiency in the operations of the District. The OIG is accorded unrestricted access to District facilities, records, and documents and is not limited as to the scope of work.

The duties and responsibilities of the Inspector General, as defined by Section 20.055, F.S., includes:

- advising in the development of performance measures,
- assessing the validity and reliability of performance measures,
- reviewing action taken by the District to improve performance,
- conducting, supervising or coordinating other activities to promote economy and efficiency,
- preventing and detecting fraud and abuse,
- coordinating with other auditors to avoid duplication, and
- ensuring that an appropriate balance is maintained between audits, investigations, and other accountability activities.

Under Section 112.3187 through 112.31895 and Section 20.055, F.S., the OIG is also responsible for investigating Whistle-Blower Act complaints brought by District employees, former employees, agents, or contractors.

STAFF

The OIG currently consists of five professionals: an Inspector General, a Director of Auditing, one Lead Information Systems Auditor, one Lead Consulting Auditor and one Executive Assistant. The Inspector General is an active member of the Florida Bar and the Director of Auditing and two Auditors maintain active Certified Public Accountant licenses. In FY 2006 the Office of Ombuds and Citizens Services was transferred to the OIG. Professional affiliations are as follows:

- Association of Inspectors General
- American Institute of Certified Public Accountants
- Institute of Internal Auditors
- National Association of Local Government Auditors
- Institute of Management Accountants
- Information Systems Audit and Control Association
- Association of Certified Fraud Examiners

CONTINUING PROFESSIONAL EDUCATION AND TRAINING

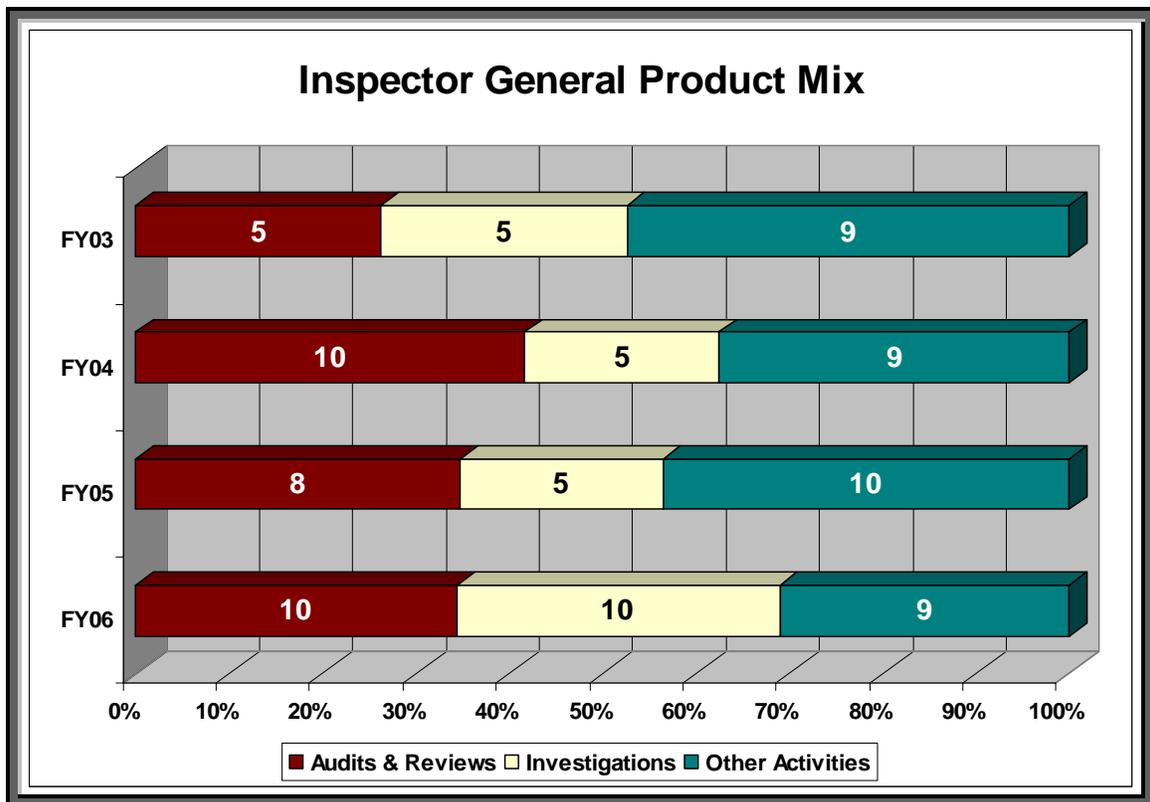
In order for our Office to comply with the General Accounting Office's *Government Auditing Standards* and the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing*, the Inspector General ensures that mandatory training requirements are satisfied for the entire OIG staff. The goal of the program is to cost effectively increase professional knowledge and proficiency, and ensure that staff meets continuing professional education requirements. During FY 2006 the staff received training in such topics as:

- Government Accounting Standards
- Government Auditing
- Integrated Auditing
- Information Systems
- Interviewing Techniques

INSPECTOR GENERAL ACTIVITIES

The Inspector General prepares an annual audit plan that lists the audits and other activities that will be undertaken during the ensuing fiscal year. The Inspector General relies on a review of the District's Strategic and Annual Work Plans, analysis of financial information, and input from the Audit Committee and District management, to aid in the development of this plan. The OIG continues to identify those programs that pose the greatest challenge to the District, to assist in prioritizing audits, and to ensure the most effective use of staff resources. The Inspector General also considers the statutory responsibility to advise in the development of performance measurements, standards, and procedures in assessing District program risks.

Overall, the number of work products prepared in FY 2006 was higher than the three previous fiscal years due primarily to a record number of investigations received in FY 2006, as illustrated in the following graph:



All audits, unless otherwise noted in the report, are conducted in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States, which are commonly referred to as the Yellow Book.

AUDITS & REVIEWS

In FY 2006, the Inspector General's Office focused on performance auditing and completed ten audits and reviews of programs and processes. Performance audits include comments on economy & efficiency, program compliance, and results. A summary of each report follows:

Review of the Procurement Process *Project No. 05-15*

The objective of this review was to identify methods for improving the efficiency of the contracting process while ensuring adequate internal controls were in place. Our survey of District project managers and contract specialists indicated that the raising of the approval thresholds had expedited the contracting process and was a vast improvement over the previous process. However, with the increase in transaction processing from the numerous priority projects, we suggested that District management may want to redirect staff from less priority areas to ensure timely contract and payment processing.

The Statement of Work (SOW) is probably the single most important document that communicates to the contractor the District's project needs. Our discussions with staff indicate that SOW preparation is getting better but still needed improvement. Training for project managers that frequently prepare SOW's would help expedite the procurement process.

The District repealed its MBE contracting rule in February 2005 because of recent case law rulings against such programs. In its place, the District developed and implemented a Small Business Enterprise program that is race and gender neutral. The District scheduled rule making procedures to implement the Small Business Enterprise program. However, the proposed thresholds regarding the maximum number of employees and annual revenues used to define a small business did not appear to reflect small business operations in the sixteen counties within the District boundaries. We recommended that the District consider revising its criteria to more accurately reflect small business operations in south Florida. Adjustments were subsequently made to the criteria.

Purchase cards have saved the Procurement Department and Accounting and Financial Services Division numerous processing hours. The controls in place over P-Card transaction processing appear adequate to ensure that these transactions are processed in accordance with policies and procedures.

**Audit of the District's Process for
FEMA Reimbursement**
Project No. 06-04

The objective of this audit was to determine whether the District is adhering to cost recovery processes and procedures to maximize reimbursement. We found that the District had improved its process for requesting reimbursement from FEMA. However, to maximize reimbursement opportunities, we recommended that the District develop an internal process to manage claims and compile required support.

The burden of funding recovery efforts falls on the District since FEMA assistance is on a reimbursement basis. Based on the recent active hurricane seasons and the pressure these storms put on the District's finances, we recommended that the District consider increasing funding in the hurricane reserve fund to provide a consistent funding source.

We also found that the District's method of recording staff time spent on hurricane recovery activities is very labor intensive. To improve efficiency, we recommended developing a reporting process that requires entering recovery cost data only once from employee time sheets. The new SAP system should alleviate this situation.

**Review of Controls Over
Acceler8 Contract Payments**
Project No. 06-05

The Acceler8 program is being implemented through an integrated team of District and contract workers. The Deputy Executive Director of CERP Resources requested our Office review the internal controls over the Acceler8 contract payment process. The major issue was whether contract employees serving the role of project and program managers should have the authority to approve invoices for payment without any review by a District employee. Such invoices definitely need to be reviewed by the contract employees since

they have the direct knowledge to determine whether the services and deliverables have been received. However, we recommended that such invoices also be reviewed by a Lead Financial Analyst that works exclusively on the Acceler8 program. This employee works with the Acceler8 team on a day-to-day basis but organizationally reports to the Accounting and Financial Services Division. Therefore, this would also provide for an independent review of Acceler8 invoices before they are paid.

**Audit of FY 2005 Fourth Quarter
Annual Work Plan Success Indicators
*Project No. 06-09***

This audit focused on determining whether the projects with specific fourth quarter success indicators were accurately reported to the Governing Board. Our review revealed a few minor differences; however, we determined that all success indicators were properly reported based on the circumstances and information available at the time of reporting.

**Review of Acceler8 First Quarter Contract Payments
*Project No. 06-10***

This review focused on determining whether Acceler8 project payments were properly authorized and made in accordance with contract/work order terms and other relevant policies and whether there was adequate supporting documentation to substantiate payment. This review covered the months of October and November 2005. No material issues were identified.

**Review of eQuest Contract Amendments
*Project No. 06-11***

This project entailed reviewing a contract amendments for the SAP implementation project (eQuest) to determine: 1) what factors lead to the extension and to what extent the implementation firm and the district were responsible, 2) how the amendment amount was determined, and 3) whether there were any changes to the scope of work that contributed to the extension.

The project extension was determined to be necessary as a result of the following combination of factors and events:

- Changes to the business process “blueprint” after system configuration began.
- Provision of District resources were not always in accordance with the contract.
- Delays in procuring products and services of other consultant for the project.
- Closure of the District’s headquarters due to two storm events (Katrina and Wilma).
- Changes in the scope of work for the Treasury module to accommodate accounting needs regarding the Acceler8 program’s debt.

We concluded that the negotiated amount appeared to be a reasonable settlement to share the responsibilities and cover all the issues.

Review of Acceler8 Second Quarter Contract Payments *Project No. 06-15*

This review focused on determining whether Acceler8 Project payments were properly authorized and made in accordance with contract/work order terms and other relevant policies and whether there was adequate supporting documentation to substantiate payment. This review covered the months of December 2005 through March 2006. Overall, our review disclosed that Contract Payment Authorization forms were properly authorized and payments were made in accordance with contract/work order terms and were substantiated by adequate supporting documentation. However, our review revealed a few minor issues.

Audit of District Mitigation Banks *Project No. 06-16*

The objective of this audit was to determine whether District sponsored mitigation banks (Loxahatchee Bank and Corkscrew Bank) create a conflict of interest with privately operated mitigation banks and to review existing agreements. We found that applicants submit proposals for the mitigation options they intend to use to offset adverse wetland impacts. In instances where the use of mitigation banks are proposed, District staff determines whether the mitigation bank credits proposed by applicants are appropriate for mitigation, considering the type and functions of the wetlands to be impacted and the type

and functions of the proposed credits. If more than one bank offers mitigation credits that are appropriate, the District does not refer or steer applicants to use specific mitigation banks. Although we found no conflict of interest in the manner in which the District's mitigation banks are managed there appears to be a perception among private bankers that conflicts exists.

Our review of permit files revealed that the file documentation could be improved. Also, our review of three prior audits performed by our Office related to the Loxahatchee Bank disclosed that the prior audits questioned the contractor's (Foster Wheeler) practice of imputing interest as a project cost because the contract agreement does not indicate interest costs as an allowable expense. This issue remains unresolved as Foster Wheeler has been unwavering in their position. The imputed interest amount is approaching \$2 million.

Audit of Short-Term Financing for Acceler8 Projects
Project No. 06-25

The objective of this audit was to determine whether the \$110 million in short term financing obtained by the District for certain EFA and CERP Acceler8 Projects were budgeted and expended for activities approved by the Governing Board. We also assessed whether the District has adequate controls in place to monitor budget transfers. We concluded that the \$110 million in short term loans were budgeted to Acceler8 project activities as authorized by the Governing Board. In addition, we concluded that adequate controls are in place over budget transfers. Further, we found that all expenditures were related to Acceler8 projects. The report contained no recommendations.

Audit Recommendations Follow-Up Report
Project 06-32

We followed up with management on the status of recommendations contained in audit reports from FY 1999 through FY 2006. Of the 381 audit recommendations made over the seven year period, 334 (88%) have been fully implemented, 3 (1%) partially implemented, 20 (5%) are in process, and 24 (6%) are no longer applicable. There were no recommendations in the "Not Implemented" category.

The status of recommendations in the FY 2006 report is comparable to FY 2005. Notable is that no recommendations fell into the “Not Implemented” category for the current and previous years. The “No Longer Applicable” category includes items where conditions have changed subsequent to issuance of the audit report that rendered the recommendation no longer relevant.

INVESTIGATIONS

Investigations issues arise from many different sources including: District management, District staff members, vendors, and citizens. The Chief Inspector General for the Office of the Governor also refers certain cases to our Office. We performed ten investigations during FY 06. A short summary of each investigation is as follows:

Review of Televent Contract, No. C-11951

Project No. 06-01

The Procurement Department requested our Office review contract C-11951 to determine whether a prime contractor complied with its Minority Business Enterprise (MBE) participation goal after its minority subcontractor contended that the prime contractor did not comply with its contractual obligation. The subcontractor demanded payment for the portion of work it was contracted to perform even though they were not provided the opportunity to perform the work.

We determined that only \$193,451 (58%) of the proposed \$333,843 participation was achieved; hence, the prime contractor clearly did not meet its contractual obligations with the subcontractor. However, it appears that the prime contractor made an effort to fulfill its contractual MBE obligation to the District by offering to use the subcontractor's services during the contract maintenance phase. Although this offer was not acceptable to the subcontractor, in our opinion, this appeared to be a reasonable resolution regarding the contractual obligations between the prime contractor and the District.

Allegation of a District Employee Using District Resources for Personal Business Purposes

Project No. 06-02

Our Office received a complaint from a citizen alleging that a District employee was using District resources for personal business purposes. After several requests for the complainant to provide evidence supporting his allegation none was ever provided to us. Hence, we closed this case.

**Investigation Regarding Herbicides
Unaccounted for at the Kissimmee Field Station
*Project No. 06-07***

Our Office received a request to investigate a matter regarding some herbicide inventory that was unaccounted for at the Kissimmee Field Station. The FY 2005 year-end physical inventory, conducted by the Accounting and Financial Services Division, revealed that 5,050 pounds of Aquathol Super K Granular (Super K) herbicide was missing from the Kissimmee Field Station. The missing Super K (used to treat Hydrilla - a submerged plant that grows in lakes) was worth approximately \$62,000.

Our investigation revealed that the product had been used in two separate Hydrilla applications that the District performed for the Florida Department of Environmental Protection. The inventory records showed the 5,050 pound shortage because the product usage for these two applications did not get input into the accounting system.

**Investigation Regarding a Project Manager's
Apparent Manipulation of the Procurement Process
*Project No. 06-08***

Our Office received a request to investigate a matter regarding a procurement incident where it appeared that a project manager manipulated the procurement process to show favoritism to a particular vendor. Our investigation revealed that the facts were different from what the complainants understood them to be, thus it was misinformation that instigated the complainants' perception of impropriety. Hence, we concluded that the allegation was unfounded. However, our investigation did reveal some deviations from established procurement practices that lead to the perception of impropriety. We conveyed this information to the Procurement Department.

**Complaint Alleging Employee
Misconduct Regarding Permitting
*Project No. 06-17***

A complaint was referred to our Office from the Office of the Governor, Office of the Chief Inspector General. The complainant alleged that employees of the District were participating in various acts of misconduct regarding permitting issues. Our review revealed that the individuals named in the complaint are not current District employees. We communicated this information to the complainant.

Security Review of Miami Field Station Incident
Project No. 06-20

The Director of Security and Emergency Management requested our assistance with investigating an incident at the Miami Field Station that occurred on April 23, 2006. The content of this report is exempt from Public disclosure.

**Investigation of Manufacturing and Installation
of MOSCAD Monitoring Equipment**
Project No. 06-22

At the request of Operations and Maintenance management, we investigated purchase orders related to the installation of monitoring equipment at S-319 and S-362. Management was concerned because it appeared that the funds for this work were spent but that the work for these project sites was not done. There were also concerns regarding another work order where it appeared that progress payments approved by the same project manager were not supported by contract deliverables.

Our investigation indicated that there were miscommunications concerning the changes in the scope of work for two purchase orders. We found that the equipment had been installed at locations different than what was shown on supporting documentation. On the other concern, we went to the contractor's facility and verified that the payments approved by the project manager were justified. Thus, this investigation did not reveal any misappropriation of District funds for personal gain.

**Investigation of Allegations Claiming Misuse of
Public Funds Regarding Land Acquisition**
Project No. 06-24

On June 7, 2006, the District received an anonymous letter contending that the District's acquisition of certain land parcels was a possible misuse of public funds and abuse of public trust. The complainant asserted that the District's purchase of the land was not attributable to any Federal or State of Florida project, and further contended that the District overpaid for the property. According to the complainant, a few months before the District purchased the property it had been listed on the open market at a price substantially lower than what the District paid.

We found the complainant's allegations were unfounded and unsubstantiated. The complainant's assertion that the parcel was not creditable to any federal or state project was unfounded. The parcels are clearly within the boundaries of the Lake Okeechobee Watershed project for the stated purpose of improving water quality in Lake Okeechobee. The complainant's allegation that the District overpaid for the parcels was also unsubstantiated.

Investigation of Employee Immigration Issue
Project No. 06-28

Our Office received a complaint alleging improprieties in immigration laws regarding a certain District employee. Our investigation concluded that the District acted appropriately regarding federal immigration laws and regulations concerning the District employee, except for a minor deviation of inadvertently including a former position title on an H-1B visa renewal. However, this matter had been corrected and no further action was needed by the District.

**Investigation of Excavation Activities on
District Owned Property on Bonita Beach Road**
Project No. 06-30

At management's request, we conducted an investigation into the earthmoving activities on District owned property, known as the Billy Don Grant property (Grant Property). The parcel is located within the Critical Corkscrew Regional Ecosystem Watershed (Critical CREW) project area in Lee County, Florida. The objective of our investigation was to determine whether the earthwork activities were approved and authorized by appropriate District management, whether permits were obtained, and whether established contracting procedures were followed.

Our investigation revealed that the Grant Property earthwork project was not properly authorized and established District processes were either partially or completely by-passed. The Procurement Department and District management in West Palm Beach were never involved in a contractor solicitation or approval of the earthwork project on the Grant Property. The work was not competed and was sole sourced to the Developer

without the required approvals. In addition, there were no detailed plans and specifications prepared, no written contract describing the scope of work and project deliverables, including what happened to the excavated fill material. No right-of-entry document to access the property was prepared and approved. The only written documents are three invalid permits issued by the Lower West Coast Regional Service Center Permit Department under the Former Project Manager's supervision. Evidence revealed that the excavation activities were verbally authorized by the Former Project Manager of the Critical CREW project, who also served as the Lower West Coast Regional Service Center Director, until November 10, 2005 when she resigned from the District.

Other actions included meetings between the Developer and District staff at the property to discuss creating ponds to improve aquatic habitat. We found that the Former Project Manager, who did not have the authority to approve the pond excavation earthwork, approved the earthwork and knew that the Developer's contractors were on the Grant Property with earthmoving equipment. Other District staff members were also aware that the Developer was on the property.

OTHER PROJECTS

The OIG periodically receives requests from District departments to consult with, and provide advice, on various projects. Such projects may entail examination, investigation or analysis of specific matters. This support may involve financial analysis, performance reviews, information systems reviews, review of rule or policy changes, contract pricing verification, or serving in an advisory capacity to assist in the decision making process regarding specific projects. In FY 2006 the OIG received four such requests. These are summarized below.

Review of Lease vs. Buy Analysis for Motor Pool Vehicles *Project No. 06-03*

Operations and Maintenance's Fleet Manager requested our Office review an analysis comparing the cost of leasing vehicles to the cost of purchasing vehicles for the administrative motor pool. We compared the present value cost of purchasing 18 vehicles for a six year period to leasing vehicles for two consecutive three year periods. We concluded that leasing the vehicles would save the District approximately \$60,000 in addition to the benefit of getting new vehicles every three years instead of every six years.

Review of Controls Over Acceler8 Construction Management Process *Project No. 06-13*

The Deputy Executive Director of CERP Resources requested our Office review and analyze the system of internal controls over the Acceler8 construction management process. The Acceler8 Program is being implemented through an integrated team of District and contract workers. All construction management and inspection activities will be outsourced and performed by employees of engineering firms. Many of the engineering firms will also report to project managers that are employees of another engineering firm. We reviewed several Acceler8 documents, including the Transition Into Construction Guidelines and a draft of the Construction Management Procedures

manual. We also made inquiries of Acceler8 staff as needed to clarify our understanding of the construction management process.

Overall, our review disclosed that the Acceler8 construction management process appears to provide good controls. The Construction Management Procedures manual provides a comprehensive set of procedures for managing construction projects. However, we also identified several risks that management and project managers need to be aware of and made several recommendations that should strengthen internal controls over the construction management process.

**Cost Proposal Review for Battelle Memorial
Institute of Science & Technology Contracts
*Project No. 06-14***

The Procurement Department requested our Office to determine if the labor rates proposed by Battelle Memorial Institute (Battelle) were fair and reasonable for the Science & Technology RFP (No. OT060548). We reviewed financial information provided by Battelle and its subcontractors to support the proposed hourly rates. In our opinion, the hourly rates Battelle proposed were based on multipliers significantly above the current market as well as those paid to other District contractors. We recommended that the District offer Battelle hourly rates based on multipliers in line with those paid to other District contractors providing similar services. District staff were successful in negotiating lower rates with Battelle.

**Review of Pump Solicitation
*Project No. 06-23***

The Procurement Department requested our assistance with a solicitation for pump equipment. There was a significant gap between the bid prices of the number 1 and number 2 ranked firms. The number 2 ranked firm threatened to protest the bid contending that the number 1 ranked firm could not meet the District's specifications. Due diligence work did not reveal any valid reason to disqualify the number 1 ranked firm, and accordingly, was awarded the contract.

Administrative Projects

During FY 2006 our Office completed the following five administrative projects:

- Developed Strategic Audit Plan
- Developed FY 2007 Audit Plan
- Completed the OIG Annual Report for FY 2005
- Updated Office of Inspector General's Operations Manual
- Maintained and updated the Office of Inspector General Web Site