

**Office of Inspector General
Annual Report**

Fiscal Year 2003

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INTRODUCTION

In accordance with the Inspector General Act of 1994, Chapter 20.055(7) 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, 2003.

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 Chairman 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 & Executive Director establishes 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 Chapter 20.055, F.S. include:

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

STAFF

The OIG consists of seven professionals: an Inspector General, four Lead Consulting Auditors, one Lead Information Systems Auditor, and one Senior Administrative Resource Associate. The Inspector General and all Lead Consulting Auditors maintain active Certified Public Accountant licenses. Our Lead Information Systems Auditor is a Certified Information Systems Auditor.

Staff professional affiliations are as follows:

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

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 FY03 the staff received training in such topics as:

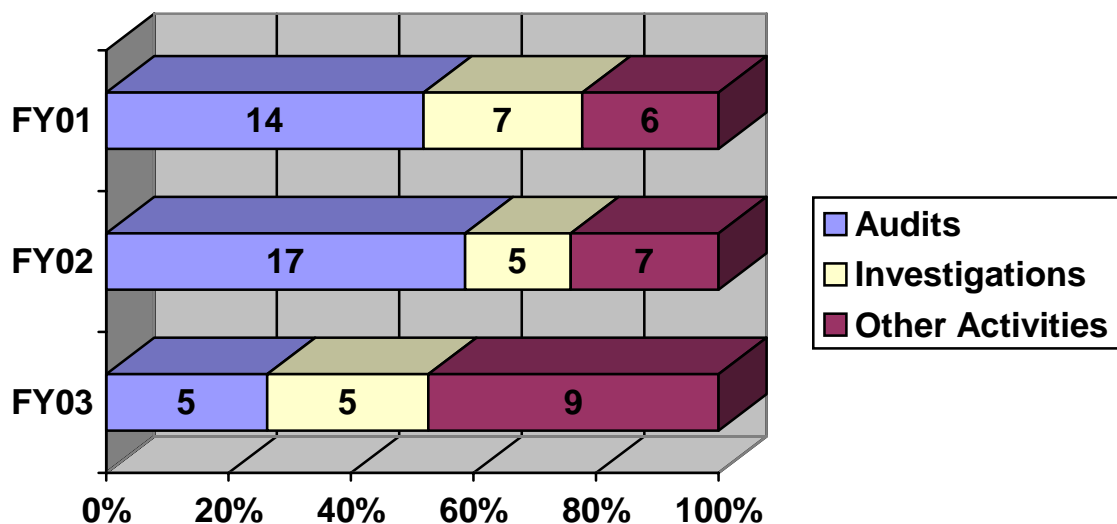
- Contemporary Issues in Government Auditing
- Ethics and Corporate Governance
- Reid Technique for Interviewing and Interrogation
- Technology and the Internal Audit Function
- Business Continuity
- Computer Forensics
- Planning and Controlling with P3e
- SAP R/3 Concepts and Audit Risks

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 risk assessment, long range audit plan, 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, during FY03 the Office of Inspector General continues to maintain a consistent high level of productivity as well as continuing to provide assistance to other departments whenever we're called to do so.

Inspector General Product Mix



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. The standards, which are commonly referred to as the Yellow Book, and with Standards for The Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, Inc.

AUDITS

The Inspector General's Office issued 5 audit work products during FY03. These included 4 performance audits. Performance audits include comments on economy & efficiency, program compliance, and results. We also performed 1 financial related audit of District contractors. A summary of each report, by category, follows:

Performance Audits:

Audit Report on Comprehensive Everglades Restoration Plan (CERP) Financial Issues

The report addresses financial reporting, direct and indirect cost, and land acquisition issues. We found that the accounting and information system and account coding structures are adequate to properly account for CERP expenditures. However, we found that improvements were needed in the financial reporting for CERP programs. The audit also revealed that although the District's Indirect Cost Plan complies with Federal guidelines, the District can receive close to \$1 million of additional in-kind credit per year by directly charging certain CERP salaries and other direct expenses for which it is entitled to under Federal cost principles. The report also includes some observations regarding the proposed in-kind credit methodology for CERP land purchases.

Audit of the Regional Water Supply Plans

We evaluated the process that the Water Supply Department uses to produce regional water supply plans for the District and found the plans are produced in accordance with statutory requirements. The majority of water supply recommendations are on schedule with the status tracked on a quarterly basis. ASR concerns are being addressed through planned experiments, pilot projects and an ASR regional study.

Several water supply projects/initiatives have fallen behind schedule or have been discontinued due to a lack of feasibility or funding. They should be reviewed during the update of the water supply plans to determine if they require repeating or deletion. Finally, consistency between the water supply plans and consumptive use permitting could be improved through the establishment of performance measurements for alternative water supply, water supply development, conservation of water supplies, and restoration of water resources.

Audit of the Land Management Program

The audit focused on District leasing and the processes and controls in place to ensure lessee compliance and system efficiency. District property leasing has grown considerably over the past few years. As a result of this increase, process improvements need to be implemented to better coordinate activities among the involved departments. In addition, as a result of the audit the District reevaluated its relationship with the South Dade Soil and Water Conservation District.

Audit of the District's Outreach Program

While the District's Outreach program is well organized, it may not be adequately funded. The District spends a considerable amount on its public outreach program, but other benchmarked institutions spend relatively more. CERP outreach in particular, has been first rate on individual projects but is behind schedule and sufficient resources have not been devoted to getting out the higher-level message about the program.

One of the major obstacles which need to be overcome before any decisions on funding are made is to develop a clear study of what the District's outreach needs are. This cannot be done without a public survey. It is also important that the Department of Public Information is provided with sufficient resources to complete a tracking system for its projects. Lacking a good system, management currently cannot quantitatively track and measure where resources have been expended and which projects have been successful in reaching targeted communities.

In fiscal year '02 the District provided \$2.4 million in one time "seed" money to various educational institutions to promote the establishment of environmental study programs. DPI staff needs to work with the institutions to ensure the continuity of the programs that have been established as well as to measure the success of the program. Finally we recommended strengthening controls over the administration of outreach grants and contracts.

Financial Audits:

Report on Pre-award Audit of Pricing Proposal Submitted by Three Contractors in Response to Request for Proposal Number C-13785, Report # 03-10

Based upon a request from the Procurement Director, we performed a preaward audit of pricing proposals aggregating \$3.6 million submitted by the top three ranked firms for SCADA Design and Implementation services. We found that the documentation the three firms submitted to support their respective cost rates was insufficient and inadequate to substantiate the validity of proposed rates. Further analysis revealed that most of the proposed rates appeared to be 28% higher than the rates the District is currently paying for similar type services. The Procurement Department used the information in our report to negotiate lower rates.

INVESTIGATIONS

Investigations are conducted for the deterrence, detection, and investigation of issues, both internal and external, which negatively impact the District. Issues as defined in Section 112.3187, F.S., (Whistleblower Statute) may fall within the investigative responsibility of the OIG. In addition, allegations of employee misconduct are investigated or otherwise addressed in a manner deemed appropriate by the OIG. We performed five investigations during the year.

Investigation of Suspected Missing Software

Pursuant to a management request, we investigated whether District Software was missing as a result of either intentional or inadvertent acts. One specific concern was whether all the software disks were properly relocated during the move from the old building B-50 (B-50) to the new building B-2 (B-2).

Our investigation did not discover any instances of lost or stolen software disks. However, files containing paper software certificates were missing. These certificates contain the license/serial number and or key codes that are needed to install the respective software. Our investigation also revealed that the District has not followed through with recommendations in our audit of Software License Compliance dated November 2000. The District currently does not have a complete inventory of all software currently owned and in use. A consultant is currently installing a software discovery tool that will scan the entire District network and generate a complete inventory of all software installed on District computers.

Report on Investigation Regarding Alleged Improprieties In Procuring Hydraulic and Hydrologic Modeling Services

This investigation was made pursuant to an anonymous letter to a Board member alleging improprieties in procuring Hydraulic and Hydrologic Modeling Services under contract solicitation number C-C20103P.

While our investigation determined that the allegations were unfounded, we determined that oversight over the procurement process, in this instance was weak. We found a significant error in score tabulations that went undetected and a controversial award decision was not discussed with upper management. Our findings and recommendations were fully discussed with the Procurement Department.

Investigation of A and Associates Personnel Practices

We found that A & Associates, a temporary personnel vendor, underpaid an employee it provided to a District contractor and treated that worker, as well as workers it provides to the District, as independent contractors. This treatment exposes the District to a liability for unpaid payroll taxes and benefits. The contractor agreed to correctly pay its employee(s) and withhold taxes.

Investigation of Operations & Maintenance Vehicle Preventative Maintenance Contracts

Based upon a request from the Deputy Executive Director, of O&M we performed an investigation of outsourced *Vehicle Preventative Maintenance Contracts*. One contractor complained about the adequacy of the specifications in the contract and alleged mistreatment by O&M's Fleet Manager & favoritism to another contractor. He subsequently terminated his contract with the District.

We found that there were some problems with the contract specifications that the Fleet Manager resolved with mutually agreed changes to the contract. A competing contractor was given some additional work outside of the scope of the contract but District procurement policy wasn't violated.

It wasn't until eleven months after initially outsourcing preventive maintenance that a cost/benefit analysis was prepared. We recommend the preparation of a cost/benefit analysis as the first step in the outsourcing decision.

Investigation of Berryman & Henigar, Inc.'s (BHI Florida) Certification under the District's Minority Business Enterprise (MBE) Certification

Based upon a request from the Procurement Department's Office of Equity in Contracting, we examined the financial records and other documentation of Berryman & Henigar, Inc. to determine whether it's an eligible Minority Owned Business Enterprise. We determined that the company is affiliated with other non-minority businesses and therefore does not meet the eligibility standards and should be decertified. The issues relating to the company's certification were subsequently adjudicated in favor of the company.

OTHER ACTIVITIES

The OIG periodically receives requests from District departments to consult with, and provide advice, on various projects. Such projects may entail examination or investigation 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.

Emergency Management: Hurricane Freddy Exercise After-Action Review

The Office of Inspector General has been observing Hurricane Freddy exercises and EOC operations since FY 00. In our opinion, there has been an overall improvement each year. The exercise participants appear better organized and command a better sense of their mission and responsibilities. We attribute this to training, experience, the EOC organizational structure and well documented operating procedures. Communications among District staff and outside participants has also improved with each exercise.

Based upon our observations and feedback from key participants we have twenty five recommendations. Most of our recommendations focus on improving communications through logistical improvements to the EOC infrastructure, most notably the special computer software, EM Tracker, used during emergency activations. The balance of the recommendations mostly relates to improvements that we believe can be made through additional training and providing additional staffing resources to certain units.

Audit Recommendations Follow-up Report

This report on the implementation status of audit recommendations is for the five fiscal years 1999 through 2003. We are pleased to report that District management has satisfactorily addressed most of our audit recommendations. Of the 317 audit recommendations:

236 have been fully implemented (75%),
3 have been partially implemented (1%),
55 are in the process of implementation (17%),
16 have seen no action to date (5%), and
7 are no longer applicable (2%).

Works of the District

We continue to provide ongoing consulting support to the Operations and Maintenance Department on the Works of the District program.

Policy Reviews

We have provided input on several proposed policies including the Investment & Banking Policy/Resolution and the Travel Policy & Procedures

Propriety of the Selection & Award Process

We have reviewed the propriety of the selection and award process for the procurement of both the Advanced Technology Land Acquisition System (ATLAS) redesign system and seven information technology consulting services work order contracts.

External Audit Coordination

We assisted the Environmental Monitoring and Assessment Department by providing audit coordination with the DEP Inspector General's auditors during their field visit. The DEP IG was asked by the Secretary to review the reliability of phosphorus loading data used in Everglades and Lake Okeechobee reporting.

Technical Assistance

We provided technical assistance to the IT Steering Committee and the IT Department by helping in the preparation of a cost/benefit analysis for a buy/lease decision for all of the Districts' desktop computers laptop computers and servers hardware. In addition, we discussed issues of concern with the Information Technology Department relative to the rollout of the Microsoft XP operating system and the District's "Audit of Software License Compliance (#00-09)."

Furthermore, our Lead Information Systems Auditor continued to provide technical support for the District's E-quest project, a new Business Software System. We also provided support for additional security to address a problem with the Accounting Division's MS Access weed control database application.

Performance Measures

We continued to work with the Office of Strategic Planning and Program Evaluation. We updated *The Strengths, Shortcomings, Opportunities and Challenges* analysis for the Office of Inspector General.

Office of Inspector General Web Site

We continue to maintain & update our web site. This site is available on both the World Wide Web and the Internal Network Web and provides District employees and the general public with the following information:

- Information Guide on the Office of the Inspector General
- Inspector General Staff
- How to Communicate Complaints to the Inspector General
- Audit Reports
- Internal Audit Charter
- Audit Committee Charter
- Whistle Blower Policy
- Audit Committee Agenda

Please visit us at http://www.sfwmd.gov/gover/2_intaudit.html