

Office of Inspector General Annual Report

Fiscal Year 2004

Prepared by

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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, 2004.

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 and Finance Committee appointed by the Chairman of the Board. The Audit and Finance Committee operates under an Audit Committee Charter established by the Board.

The Internal Audit Charter adopted by the 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 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

In FY04, the OIG reorganized. The office 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 Association and the Director of Auditing and two Auditors maintain active Certified Public Accountant licenses. 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
- National Association of Local Government Auditors
- 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 FY04 the staff received training in such topics as:

- Integrated Auditing
- Performance Measurements
- Information Systems
- Sarbanes Oxley
- Fraud

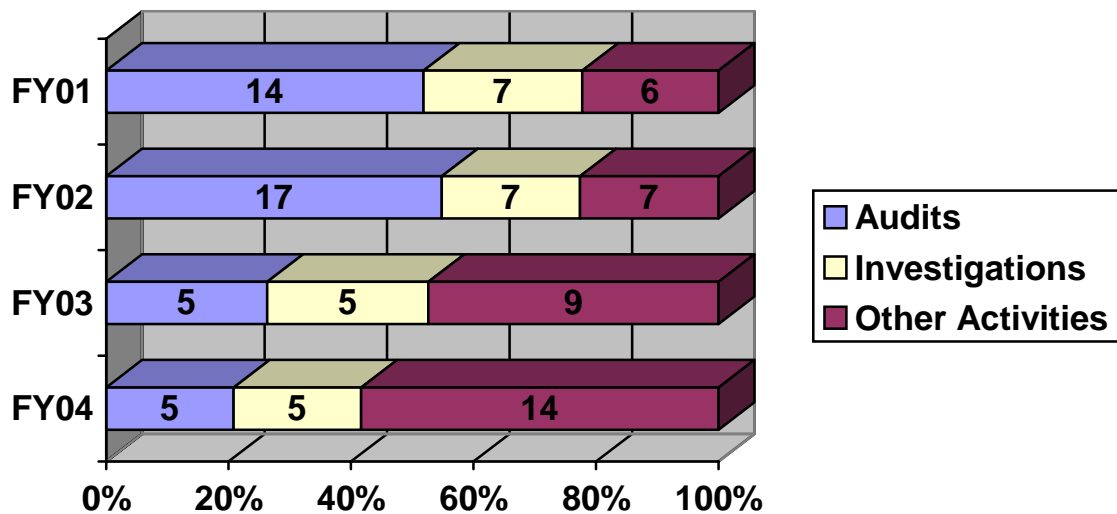
- SAP R/3 Software
- Database Design
- Strategic Planning

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 04 was comparable to the three previous fiscal years as illustrated in the following graph:

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, 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.

In accordance with the Internal Audit Charter and Yellow Book Standards, the Governing Board's Audit and Finance Committee approved a peer review of the Office of Inspector General. A peer review team from the National Association of Local Government Auditors conducted the review and issued their report on May 13, 2004. The external quality control review was for audits issued during the period January 1, 2001 through December 31, 2003. Their review found that the Inspector General's audits comply with the *Government Auditing Standards* issued by the Comptroller General of the United States.

AUDITS

In FY04, the Inspector General's Office focused on performance auditing and completed 5 audits. Performance audits include comments on economy & efficiency, program compliance, and results. A summary of each report follows:

Audit of the District's Real Estate Appraisal Process **Project #03-15**

We examined the adequacy of the internal controls over the appraisal process. The audit covered appraisal activity occurring during the period October 2001 through January 2003.

The audit recommends the strengthening of internal controls over the process which includes establishing formal written procedures for the appraisal function. We also recommended that the Chief Appraiser have the full responsibility for hiring and terminating outside appraisers and be accountable for the market value conclusions reached.

Audit of District Facility Security
Project #03-08

Our audit found that security improvements are needed to assess threats, vulnerabilities and risks. District security measures should be based on these assessments. The content of this report is exempt from public disclosure.

Audit of the District's Regulatory Permitting Process
Project #04-10

This report focused on assessing compliance with statutory obligations to issue permits and ensuring that the District's process for reviewing permit applications was in accordance with statutes and rules.

Based on our audit testing, we concluded that the District is issuing permits in accordance with statutory administrative requirements. We also found that application reviews were in accordance with the District's Basis of Review rules and applicable Florida statutes.

Audit of the District's Fleet Operations (Draft)
Project #04-08

This audit found that, overall, the District's fleet of approximately 600 (on-road) vehicles appears adequate; however, a few vehicles located at the District's Headquarters are under utilized. We also found that the Operations and Maintenance Department did a good job of rotating high usage and low usage vehicles and heavy equipment among field stations. However, rotation of light vehicles between high usage and low usage drivers could be improved in other departments to help balance age and mileage replacement targets.

The audit also examined a cost/benefit analysis that Fleet Management conducted that was used as the basis for out-sourcing the District's internal administrative motor pool to a rental car company. We reviewed Fleet's analysis and concluded that it contained several oversights that resulted in overstating the cost savings by \$121,695 over a six-year period. Further analysis revealed that reimbursing employees for using

their personal vehicles for District business would be substantially cheaper than both of the other alternatives.

The audit also revealed that contractors were using District vehicles when performing their contractual duties where there was no such agreement in the contract. We estimated that the District may have provided one contractor with as much as \$80,000 worth of transportation services over the contract term.

Audit of Cooperative Agreements (Draft)
Project #04-02

Our review of selected cooperative projects indicated that cost-sharing partners complied with contract terms and conditions. Overall, District project oversight staff was diligent ensuring contract compliance. We found only one instance of non-compliance in which District payment was made before the final deliverable was completed and reviewed. This lapse was a minor exception.

On occasion, the District advances funds for cooperative projects. In these circumstances, we recommend that management ensure that advanced funds for the project are properly designated by the cost-sharing partner and cannot be spent for other purposes. In addition, the District should develop monitoring procedures that require frequent remittance of progress reports for advance funded projects. Monitoring staff should conduct regular site inspections to verify reported progress and to ensure funds have been spent appropriately

INVESTIGATIONS

We performed five investigations during the year: A short summary of each investigation is as follows:

Investigation of Nu-Way Lawns, Inc. Complaint
Project #04-09

This investigation was performed in response to a complaint that was filed by Nu-Way Lawns, Inc., a grassing subcontractor for the construction of Stormwater Treatment Area 1 East. Nu-Way Lawns, Inc. alleged that District staff directed prime contractors and federal and local governments to a preferred grassing contractor and told them not to do business with Nu-Way Lawns, Inc.

A thorough investigation revealed that the complainant's company did bid on hydro-seeding work from the federal government and was awarded contracts which directly contradict allegations made in his complaint. The awards included subcontracts with prime contractors and direct contracts with local governments. His contention that the District in partnership with federal and local governments conspired against Nu-Way Lawns Inc. and directed hydro-seeding contracts to a competitor was unsupported and unfounded.

Investigation of Allegation of Employee
Impropriety Regarding the Purchase
of a Vehicle at the District's Public Auction
Project #04-05

We performed an investigation to determine the validity of assertions made alleging that a senior fleet technician made unnecessary repairs to a vehicle scheduled for sale and purchased the vehicle at the District's Public Auction of Surplus Property. Our investigation found that the allegations were not sustained. Although our investigation did not disclose any wrongdoing, we are concerned about the fact that the District's Policies and Procedures do not restrict certain employees from participating in the

auction. We recommended that senior management address this issue prior to the next annual auction.

Investigation of a Former Employee's Whistle-Blower Complaint
Project #04-07

This investigation was performed in response to a letter received from a former employee. The substance of the complaint was that an after-the-fact permit exemption was provided to an applicant in violation of law, rule or statute. The complainant further alleged that her objection to the permit exemption led to her termination from the District. We thoroughly investigated these allegations and found them groundless.

Investigation Regarding Alleged Bribe
Solicited by a District Employee
Report No. 04-11

Our Office received a request to investigate a citizen's allegation that a District employee had solicited a bribe regarding a surface water permit issue. We concluded that the allegation is not sustained based on insufficient evidence to either prove or disprove the accusation.

Investigation of Complaint Alleging Illegal Burial of Trees
Project #04-13

The complaint was forwarded to our office from the Governor's Office, which alleged that a District contractor used the complainant's property illegally as a burial ground to dispose of palm trees uprooted during the stabilization project on the C-24 canal bank.

Our investigation did not produce any evidence implicating the District or its contractors as culpable in this matter. However, the complainant stated that she possessed evidence which supported her claim. We requested the evidence from the complainant; however, such information was never received. Hence, we closed this investigation due to lack of evidence.

OTHER ACTIVITIES

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.

Review of Critical KPMG E-Quest Readiness Recommendations **Project # 04-04**

In April of 2003, the E-Quest Project team engaged KPMG to perform a diagnostic to assess the District's readiness to implement the SAP software that was selected and purchased for the ERP system. Our office reviewed and substantiated the status of those items identified in the assessment that needed to be completed prior to negotiating a contract with a consultant. Our review indicated that all the critical items have been sufficiently addressed to commence negotiations with the consultant; however, several related issues were identified that needed management's attention. The subsequent negotiations; however, were unsuccessful.

Review of Employee Benefits (Draft) **Project # 03-08**

The objective of our review was to determine whether the District's employee benefits are comparable to those offered by other organizations. The results of our review indicated that the District's benefits are comparable with other organizations in Palm Beach County based on a survey conducted by the Health Care District of Palm Beach County. The review also concluded that the average number of sick leave hours taken has decreased significantly since reinstating the sick leave incentive program in FY 1997, as recommended in our *Audit of the Human Resources Department*, issued in September 1996. At the request of the Audit and Finance Committee, the scope of this

report has been expanded to also compare District benefits to the non-governmental sector.

***Emergency Management: Hurricane Freddy Exercise
After Action Review (Draft)
Project # 04-14***

The Office of Inspector General has been observing Hurricane Freddy exercises and EOC operations for the past five years. Every year we have seen overall improvement with this year being no exception. 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.

While the participants managed the exercise skillfully, effectiveness and efficiency could be further fine-tuned. The report contained recommendations with a focus on improving communication and participant effectiveness through continued training.

The scope of this report has been expanded to address the effectiveness for the EOC operations during the recent two actual hurricane events.

***Review of Applied Aquatic Management Sales Tax
Invoiced to the District
Project # 04-01***

Our Office was requested to verify a contractor's claim for omitted sales tax of \$128,276 on previously issued and paid invoices. Our review resulted in adjustments to the contractor's total claim for unsupported costs and documentation inaccuracies.

***Audit Survey of Controls Surrounding the
Collection of Fees from
the Lake Belt Mitigation Fund
Project # 04-15***

We conducted an audit survey to determine the internal controls surrounding the collection of mitigation fee money from the Miami-Dade Lake Belt through the Florida State Department of Revenue (DOR). We worked with the DOR's Inspector General to review flowcharts of their collection procedures and other collection process information. We issued a memorandum to management about our procedures performed.

***Assistance to the Loxahatchee Mitigation Bank
Project #03-12***

The Office was requested to prepare a projection of future revenues and costs for the Loxahatchee Mitigation Bank. We prepared a four-year cash flow forecast dated August 27, 2003, which will help the Bank manage its operations.

***Review of Environmental Monitoring
Project # 03-14***

At the request of management, we teamed with an outside consultant to review the District's Environmental Monitoring and Assessment process. Our duties included a review of monitoring network optimization studies. A report with recommendations was issued to management under the outside consultant's letterhead.

***Review of Broward County Settlement
Offer Regarding Tax Collection Commissions
Project # 04-03***

Management requested our assistance in reviewing an offer from Broward County regarding resolution of overcharges for tax collection commissions. We determined that

Broward County's overall proposed methodology was acceptable; however, we recommended a different fee rate from the one Broward County offered.

***Assistance With Kissimmee River
Restoration Project Cost Share Issues
Project #04-16***

Management requested our assistance with Kissimmee River Restoration (KRR) cost sharing issues. Management is concerned that the District does not know the status of the 50/50 cost sharing with the U. S. Army Corps of Engineers (the "Corps"). Also, expenditures may have been incurred for the KRR project which may be eligible for in-kind credit, but have not been submitted to the Corp for in-kind credit consideration. Some large cash payments are projected over the next few years and management wants to determine the cost sharing status before such payments are made.

We assisted in identifying all authoritative documents governing the KRR project and then identified all criteria regarding cost sharing issues from those documents. Staff is using this information to establish a methodology for determining in-kind credit eligibility for KRR expenditures.

***Monitoring of Enterprise Resource Management
Information System Implementation (eQuest)
Project # 04-18***

Our Office participated in an advisory capacity in the implementation of the Enterprise Resource Management Information System that will replace the District's current financial management information systems. The new system aims to replace a ponderous system consisting of multiple interfaced applications with one integrated system where all applications interact and share one central database. Our primary role in this system's implementation is to ensure that a quality implementation process is followed and proper internal controls are incorporated into the system design. We also plan to perform a post implementation review to ensure that the system operates properly.

Audit Recommendations Follow-up Report
Project #04-17

We followed up with management on the status of recommendations contained in audit reports from FY1999 through FY2004. Of the 327 audit recommendations made over the six year period, 282 have been fully implemented, 7 partially implemented, 17 are in process, and 21 are no longer applicable. There were no recommendations in the “Not Implemented” category.

A comparison between this year’s report and that of last year showed a notable improvement in the number of recommendations implemented and a significant decrease in the “Not Implemented” category, which declined from 6% to zero percent of total recommendations. However, the number of recommendations deemed “No Longer Applicable” increased slightly. This category includes items where conditions have changed subsequent to issuance of the audit report that rendered the recommendation no longer relevant, such as:

- Alternative compensating controls have been put in place.
- A decision was made to implement a new system that will address the issue making it impractical to retrofit the existing system (e.g. eQuest, IRIS, ePermitting, etc).
- The policy, statute, or rule has changed (e.g. repeal of the MBE Rule).

Performance Measurements

One of our Lead Consulting Auditors represented the Inspector General’s Office as a planning liaison in periodic meetings with the Office of Performance Management. He has provided information about our Office’s accomplishments and performance goals. We also monitored the development of District wide performance measures.

Litigation Support

The District is being sued by a former employee for wrongful termination. The Office has a long history of involvement with the former employee starting in 1997 when he alleged negligence on the part of co-workers and supervisors. Since that initial involvement, the former employee has made other formal complaints, none of which were deemed meritorious. The employee was terminated in 2002, has exhausted all other legal remedies, and has turned to the civil courts for relief. A representative of our Office is acting as a witness on the part of the District. (Note: This IG staff member was transferred to the Finance & Administration Department as part of the IG reorganization.)

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 and Finance Committee Charter
- Whistle Blower Policy
- Audit Committee Agenda

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