
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



**Office of Inspector General
Annual Report**

Fiscal Year 1999

Allen Vann, Inspector General



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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MGT 08-06F

September 23, 1999

Governing Board Members:

Mr. Michael Collins, Chairman
Mr. Michael Minton, Vice Chairman
Mr. Mitchell W. Berger
Ms. Vera M. Carter
Mr. Gerardo Fernandez
Mr. Patrick Gleason
Mr. Nicolas Gutierrez, Jr.
Mr. Harkley Thornton
Ms. Trudi Williams

Re: Annual Report for
Fiscal Year 1999

In accordance with the Audit Committee Charter and the Inspector General Act (Chapter 20.055(7) F.S.), I am pleased to submit the Office of Inspector General's Annual Report for Fiscal Year 1999. This report was prepared by Doris DeMaio. It summarizes the audits performed, as well as other projects and activities accomplished, during the year.

The Office of Inspector General will continue to promote effective controls, evaluate program effectiveness, and identify opportunities to improve efficiencies in operations. We will continue to provide you and District management with quality information to assist in decision making and fulfilling your duties and responsibilities.

We appreciate the support and encouragement of the Governing Board Audit Committee and the cooperation of the District staff.

Sincerely,

Allen Vann
Inspector General

AV/dmd

C: Frank Finch

GOVERNING BOARD

EXECUTIVE OFFICE

Michael Collins, *Chairman*
Michael D. Minton, *Vice Chairman*
Mitchell W. Berger

Vera M. Carter
Gerardo B. Fernandez
Patrick J. Gleason

Nicolas J. Gutierrez, Jr.
Harkley R. Thornton
Trudi K. Williams

Frank R. Finch, P.E., *Executive Director*
James E. Blount, *Chief of Staff*

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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, 1999.

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 eight professionals: an Inspector General, four Senior Auditors, one Information Systems Audit Manager, one Lead Program Evaluator, and one Senior Administrative Resource Associate. (See Appendix A, Organization Chart, page 14). The Inspector General and all Senior Auditors maintain active Certified Public Accountant licenses. Our Information Systems Audit Manager 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
- American Society for Public Administration

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.

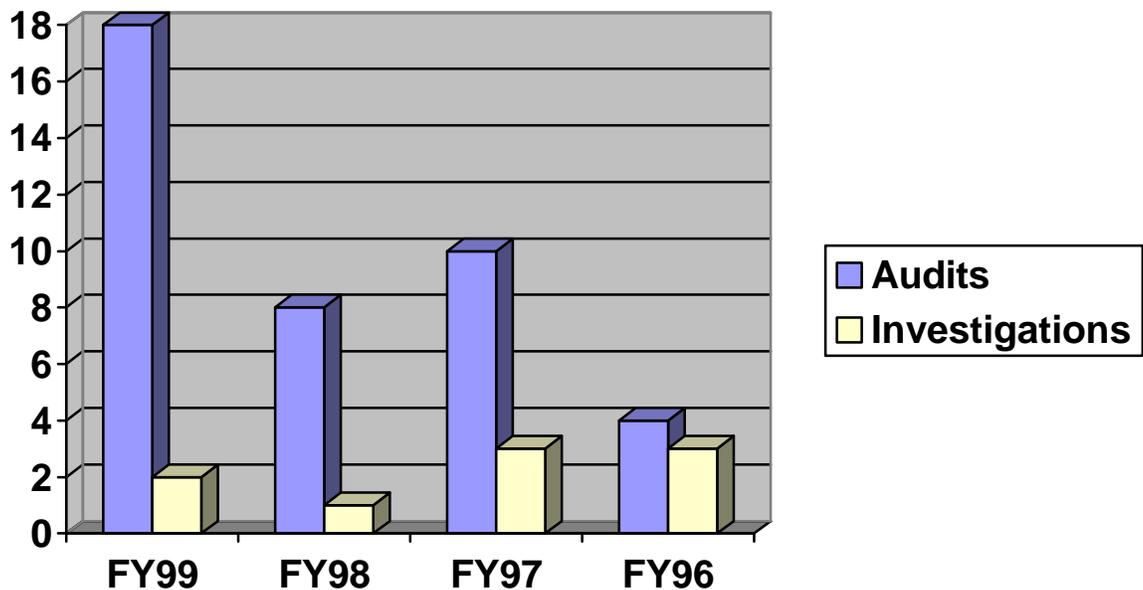
During FY 99 the staff received training in such topics as:

- Operational Auditing
- Assessing Controls in Performance Audits
- Conducting Performance Audits
- Computer Audit, Control & Security
- Process Mapping Using Process Charter Software
- Writing Value Added Audit Reports
- Year 2000 Compliance Issues
- Risk, Performance Measurement, and Ethics & Fraud
- Economic Crime/CAATT's & Frauds

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 audit 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.

The number of work products prepared in FY 99 increased significantly over the three previous fiscal years as illustrated in the following graph:



All audits are conducted in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States, 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 18 audit work products during FY99. These included 10 performance audits. Performance audits include comments on economy & efficiency, program compliance, and results. We also performed 8 financial audits. A summary of each report, by category, follows:

Performance Audits:

Everglades Construction Project Accounting System Review. The purpose of this audit was to ensure that revenues and expenditures for the project were properly identified and accounted for as Everglades Trust Fund transactions. Overall, the internal controls over revenues and expenditures were sufficient to ensure that transactions were executed in accordance with statutory requirements. Our findings were that Everglades Trust Fund revenues were understated by \$185,338 representing P-2000 funds used for ECP land acquisitions that were recorded in the District's SWIM fund. In addition, there were a number of expenditures, related to legal costs, salaries, land acquisition and operations and maintenance costs, which should have been charged to the fund. Our findings indicate that Everglades Trust Fund expenditures are understated by approximately \$2,134,190. Based upon these findings, we made 6 recommendations, all of which management has concurred with.

Audit of the Everglades Agricultural Privilege Tax. This tax generates approximately \$12.5 million annually and is a dedicated source of funding for the Everglades Construction Project. Our audit found parcels in the EAA that were not on the tax roll. As a result, the District will file a corrected tax roll for the current year and has taken action to collect arrearages from prior years. The year tax and arrearages totaled \$191,067. Had these parcels not been identified, we estimate that the District could have lost approximately \$1.5 million in tax revenue over the period 1998 through 2013. In addition, District staff will annually review County Appraiser reports to ensure accuracy and completeness of the tax roll.

The audit also recommended that management review the issues surrounding the Everglades regulatory program as they relate to individual on-farm credits. We recommended that the District review the necessity and frequency of certain non mandated testing.

Audit of the Vegetation Management Program. This report details the results of our review of the \$19 million per year Vegetation Management Program. Overall, herbicide usage controls could be improved. Reports summarizing herbicide activities had large unreconciled differences. Also, Vegetation Management crews are required to enter virtually the same activity data into two database systems. Maintaining the two systems takes a significant amount of time away from field inspections and crew supervision. In addition, monitoring melaleuca eradication contractors with headquarters-based staff is difficult because of the remoteness of work sites and the difficulty in reaching those sites. Based upon our findings, we made 11 recommendations. Management agreed to implement 9 recommendations and proposed acceptable alternative solutions for the remaining two.

Audit of the Leased Worker Program. We concluded that in large part the leased worker program was used as a vehicle to circumvent a freeze on hiring. District Departments are currently seeking to convert 37 leased positions to full time employees. Justifications for leased workers did not always comply with the guidelines for the program and leased positions were kept beyond the need for which the position was justified. Improvements in monitoring and administering the program are needed. We made 10 recommendations that management agreed to implement.

Report of FY98 Non-merit Salary Actions. We performed an analysis of the FY98 Non-merit Salary Action Report. The report listed 464 separate personnel actions resulting in approximately \$1.4 million in annual salary increases. Many of these increases exceeded the District's Salary Administration policy. Four recommendations were made. Management concurred with the recommendations and agreed to implement appropriate measures to address the issues that were raised.

Audit of the Expert Assistance Program. The Expert Assistance Program provides prequalified consultants for scientific and technical problem solving, as well as peer reviews. Since its inception through FY98, the period of our audit, over \$1.5 million was spent. We evaluated whether the Expert Assistance Program was being administered in accordance with procedures and good procurement practices. Overall, the Expert Assistance Program is being administered in accordance with the guidance contained in the Standard Operating Procedure. However, we did note several instances where the procedures were not being adhered to or where they could be improved.

While consultants are appropriately pre-qualified on an annual basis, selections of experts for specific projects are not adequately justified and documented. Overall spending on consultants was not found to be excessive, but several Requests For Assistance exceeded the stated \$25,000 maximum; e.g., one peer review exceeded \$47,000. In another instance expert deliverables fell short quantitatively. Current procedures do not require that the consultant be evaluated. The report contained 7 recommendations which management concurred with and indicated steps they will take to implement them.

Information Systems Security Audit. In order to establish a base line for an effective District information systems audit program, we performed a high level audit of the major areas that influence system security. The areas were organization, policy, security administration, physical site, access, hardware, and major applications. We found that the information systems security policy needs to be finalized, training on the policy standards and guidelines needs to be provided, a focal point for computer systems security needs to be established, and current information systems procedures/practices need to be reviewed and formalized with consideration given to their impact on overall District computer systems security. The report contained 17 recommendations. Management concurred with 16 recommendations and indicated that steps will be taken to implement them.

Report on the Implementation of the District's Year 2000 Compliance Planning. In reviewing the work of the District's year 2000 cross-departmental team, we found that they successfully implemented the recommendations contained in our prior audit report. Executive support, strong leadership, and teamwork contributed to successfully addressing each recommendation. As a result, the District is substantively year 2000 ready.

Audit of the 1996 Technology Assessment Recommendations "Navigating the Future" by Deloitte & Touche Consulting Group. Our follow-up audit assessed whether District staff implemented the recommendations contained in the consultant's report. The District used the recommendations of the consultant as a guide for upgrading and replacing information systems technology. In the three fiscal years subsequent to the consultant's recommendations, the District budgeted \$11.8 million and expended \$8.9 million through February 1999 for computer hardware, software, and the supporting small tools/equipment.

As a result of our follow-up, we concluded that the technology assessment provided a good source of objective professional advice that was subsequently acted upon by management. Only 12 of the 144 recommendations in the consultant's report were not initiated.

Follow-up on the State of Florida Auditor General's Operational Audit of the South Florida Water Management District. Pursuant to Section 11.45(7)(e), Florida Statutes, the South Florida Water Management District provided the Legislative Auditing Committee with a written explanation of the status of the recommendations contained in Audit Report No. 13311 issued by the Office of the Auditor General, State of Florida, on October 22, 1998.

Financial Audits:

Interim Audit of the Loxahatchee Mitigation Bank. This audit was performed pursuant to a request from Construction and Land Management. We audited the books and records of Foster Wheeler Environmental Corporation pursuant to its mitigation bank contract with the District. We found that job cost to date for direct labor, reimbursables and overhead are applicable and allocable to the Loxahatchee Mitigation Bank and supported by the contractor's books and records. However, we questioned the applied interest expense that was charged to the project and the expenses incurred and charged prior to the contract execution date. Costs questioned total \$267,538. The Project Manager concurred with our recommended adjustments.

Indian River Lagoon Specialty Tag Fund. This annual certified financial report is required for funds received & expended in the Indian River Lagoon Fund. We provided a copy of our report to the Florida Department of Highway Safety & Motor Vehicles. We found that fund expenditures were made for restoration and environmental education in compliance with the State Statute.

Audit of Minority/Women Business Enterprise (M/WBE) Program. Pursuant to Section 40E-7.623, Florida Statutes, the District is required to prepare an annual report summarizing M/WBE activities by industry classification. During the FY98, the program reported \$26.7 million in M/WBE activity. The Office of Inspector General certified the accuracy of statistical data presented in this report.

IT Claim Settlement Audit. At the request of the Office of Counsel, we provided audit advisory services to the District's outside counsel to assist in the settlement of the IT claim for compensation due to alleged damages relating to unsuccessful bids submitted for construction of stormwater treatment areas 1W & 2 and STA 5. With our assistance, IT's claim for \$1,889,000 was settled for \$575,000.

Pre-Award Audit – Burns & McDonnell STA 3/4

Pre-Award Audit – Brown-Cunningham & Grannuch STA 3/4

Pre-Award Audit – Nodarse & Associates STA 3/4

These three Pre-award audits were for pricing proposals submitted for design/construction support services for stormwater treatment area 3 & 4 RFP # C-E300. The contract proposal was for \$4,310,031. The final negotiated award was for \$2,659,294.36. This series of reports was used by the Procurement Division and the Everglades Construction Project Division to successfully negotiate a contract with Burns & McDonnell.

Pre-Award Review of Adnan Investment & Development Inc. Pursuant to a request made by the Procurement Division, we performed a pre-award review of the company's financial records to determine its capacity to perform construction work at a higher dollar volume than it is currently performing for the District.

Based on Adnan's volume of business, the nature and mix of the business performed, and the other matters discussed above, we determined that it would be risky for the District to award a planned larger-dollar-value construction contract to Adnan with any degree of certainty that the project will be completed in a satisfactory manner and in accordance with all of the District's terms and conditions.

INVESTIGATIONS

There were no Whistle-Blower Act investigations during the year; however, during the year we concluded two general investigations:

EAA Permit Fee Investigation. Based upon a complaint from an external informant, we investigated the renewal of Works of the District permits in the Everglades Agricultural Area. The Complainant alleged that larger farms in the EAA have been allowed to renew their permits for a flat fee of \$5,000 in exchange for an alleged gratuity to a District employee.

Our investigation revealed that the Rules of the District regarding permit type and fees were not followed during the renewal process. Fourteen farms were allowed to renew as individual permits rather than as the required master permits, which have a higher fee. This decision cost the District at least \$78,126 in permit fees and benefited the larger farms in the EAA.

The decision to change the renewal process was made by the Director of the Everglades Regulation Division without consulting his immediate supervisor. However, we determined there was no merit to the accusation of an alleged gratuity. Further, we found no evidence that the Division Director's action was motivated by, or resulted, in personal gain.

Subsequent to our investigation, the Division Director was transferred to other duties. The Regulation Department currently is in the rulemaking process. This will align the rules with the practices found during our review.

Investigation of the Willing Seller Program in the 8 ½ Square Mile Area. At the April 15, 1999 Governing Board Meeting, allegations were made by an attorney representing residents of the 8½ Square Mile Area, that property owners were not true willing sellers, as they were being harassed and coerced into selling. These allegations were followed up in writing and included copies of District notification letters to property owners in the 8½ Square Mile Area that the attorney categorized as coercive. The Audit Committee requested that the Office of Inspector General conduct an investigation.

Our investigation did not reveal any substantive evidence of District staff harassing or coercing property owners or otherwise acting inappropriately. We found only one instance where a District employee mis-spoke with regard to the District's condemnation authority. In addition, the letters cited were not, in the opinion of the Office of Counsel, legally coercive.

Nevertheless, we concluded that the District's authority and intentions were poorly communicated and contributed to fostering a great deal of resentment from property owners. District mis-communication may also have contributed toward some property owners signing up for the willing seller program.

OTHER ACTIVITIES

Audit Recommendation Follow-up Report for the period October 1, 1996 through December 31, 1998. Adequate and timely follow-up is essential to close the review cycle. Without follow-up to ensure that corrective action is take, the value of the review is diminished. Upon completion of every report issued by the Office of Inspector General an entry is made in the Audit/Recommendations database directly from the report for each recommendation. These entries contain the Audit & Recommendation Number, Recommendation Description, Responsible District Department/Office, Management's Response, and the projected Completion Date. Each auditor is responsible for performing follow-up activity and subsequently updating the working papers for their individual projects.

As of January 1999, the date of this report, District management satisfactorily addressed most of our audit recommendations in past audits. Of the 178 audit recommendations: 99 were fully implemented, 5 were partially implemented, 63 were in the process of implementation, 9 had no actions to date, and 2 were no longer applicable.

Twenty-four of the 63 recommendations that were still in process were from audits performed prior to 1998. Implementation of 15 recommendations were past the committed due dates. The 39 remaining in process recommendations were made in recent audits and have likely been implemented this year.

Land Acquisition Data Management Re-engineering. During this year, we provided leadership to the Land Acquisition Data Management Re-engineering Team, which was formed in March 1999 to study and recommend improvements to the land acquisition process and the database supporting the process. The project sponsors and associated process managers include six divisions in Construction and Land Management, the Office of Business Resources and the project management division of the Information Technology Department. To date, the team has documented the current land acquisition process including eight sub-processes, identified the requirements of system users and customers, and recommended a set of process, technology and data management improvements that have been very favorably received by staff and management. The OIG has been asked to continue to provide leadership to this important project during the next fiscal year.

Assistance to Other Departments. 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.

Outreach Efforts. We have produced a brochure outlining the District's complaint process. This brochure provides employees with an outline on how, and to whom, various types of complaints can be made. The brochure provides information to employees and members of the public on how to come forward, when warranted, with allegations of suspicious activities or wrongdoing. It outlines the Office of Inspector General's authority to conduct investigations and also outlines information on Equal Employment Opportunity issues, as well as employee grievance procedures.

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
- Special Projects Reports
- Internal Audit Charter
- Audit Committee Charter
- Whistle Blower Policy
- Audit Committee Agenda

Our web site is located at http://www.sfwmd.gov/gover/2_intaudit.html

Peer Review Participation. Based on an agreement with the National Association of Local Government Auditors to reciprocate for their time spent performing a peer review of the SFWMD Inspector General's office, one of our Senior Auditors, participated in a peer review of the Internal Audit Department of the City of Tampa.

Appendix A

