



## **Audit of the Cash Receipts Process**

**Project #15-07**

**Prepared by**  
Office of the Inspector General

**J. Timothy Beirnes, CPA, Inspector General**  
**Daniel Sooker, CPA, Chief Investigator**



## SOUTH FLORIDA WATER MANAGEMENT DISTRICT

November 12, 2015

Governing Board Members:

Re: Audit of the Cash Receipts  
Process - *Project No. 15-07*

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. Our objective was to determine whether adequate internal controls over cash receipts are in place and functioning properly to ensure that cash collections are safeguarded, deposited in a timely manner and accurately recorded in the District's financial records. Dan Sooker and I prepared this report.

Sincerely,

A handwritten signature in blue ink, reading "J. Timothy Beirnes".

J. Timothy Beirnes, CPA  
Inspector General

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## **BACKGROUND**

In accordance with the FY 2015 Audit Plan, our office conducted an audit of the cash receipts process. The District receives revenue from numerous sources but its primary source is Ad Valorem tax collections. In FY 2014, the District received approximately \$269 million in Ad Valorem tax revenue, most of which was collected during the period November 2013 through March 2014. The District also receives approximately \$135 million annually of other governmental payments through grants and state appropriations, and individuals and businesses for permits, lease agreements, surplus asset sales, fines, and penalties. Employees remit payments for personal use of their District cellular phone and former employees remit payments for health insurance benefits. These cash receipts are processed by staff in the Finance Bureau.

The State of Florida's Auditor General conducted a performance audit of various aspects of the District's operations, which included a review of the internal controls over its cash receipts process. The Auditor General's report, dated January 2014 (see Appendix 1), contained a number of recommendations to improve the District's cash collection procedures. We reviewed the District responses to the recommendations and the changes that management has implemented to strengthen the cash receipts process.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

Our objective was to determine whether adequate internal controls over cash receipts are in place and functioning properly to ensure that cash collections are safeguarded, deposited in a timely manner and accurately recorded in the District's financial records. We also followed up on recommendations made in the Auditor General's performance audit related to the District's cash receipts process to verify implementation of such recommendations. To accomplish our objectives, we performed the following:

- Reviewed cash receipts policies and procedures.
- Interviewed District staff responsible for the cash receipts process.
- Documented the internal control process over cash receipts.
- Sampled cash receipts for compliance with established procedures.

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## **AUDIT RESULTS**

### **Executive Summary**

The District has implemented numerous changes to the system of internal controls related to the cash receipt process. These changes focus on safeguarding and securing cash receipts and mitigating the risk of misappropriation. Another benefit has been an improved cash receipts deposit timeline.

In response to the Auditor General's recommendations, the Finance Bureau implemented procedures to restrictively endorse and date stamp checks received directly by the District's Cashier. However, checks originating from Service Centers are not restrictively endorsed until received by the Regulation Division. As a compensating control, Service Center staff prepares pre-numbered receipts for each permit application check received and mails the pre-numbered receipts with the checks to Regulation Division staff at District Headquarters daily. Notwithstanding these compensating controls, the District should evaluate the benefits of having Service Centers restrictively endorse all checks at the point of collection.

The Finance Bureau has made significant improvements to the cash receipt deposit timeline. The District obtained an automated check scanner from SunTrust that enables the Cashier to make daily check deposits to its SunTrust operating account from the Cashier's office. Thus, maximizing interest income and eliminating the risks associated with un-deposited receipts.

We found that under the District's current policies and procedures related to the cellular phone plans the District expends a substantial amount of resources administering reimbursements from employees for personal cellular phone usage that are for the most part nominal. In FY 2014, 187 of the 488 reimbursement transactions were under \$3.00 payments.

To streamline this process and reduce the cost of administering cellular phone usage, we recommend that the District amend its wireless device procedure to permit reasonable incidental use provided that it is infrequent and brief. In our view, it would prove cost effective for the District to restrict personal cellular phone use under a revised wireless device procedure and discontinue the employee reimbursement requirement for this use unless it is other than infrequent. The IT Asset Management Section should continue monitoring monthly cellular phone bills to identify non-District use and ensure that employee personal use is incidental. Another alternative to consider is to phase out District cellular phone plans and move all remaining employees assigned

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a cellular phone to the stipend program, which would virtually eliminate the need for District staff to administer and monitor employee cellular phone usage.

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## Internal Controls over Cash Receipts

The District's system of internal controls over cash receipt transactions, which includes its policies and procedures, is intended to provide reasonable assurance that all cash is accounted for, safeguarded and secured, and deposited in a timely manner. A key component of the internal control environment is segregation of duties. One employee should not have the authority to collect, handle or transport and deposit cash receipts. Therefore, when one person has authority over multiple cash collection functions the risk of misappropriation increases. We found that the District's cash collection processes appear adequately segregated among staff in the Finance Bureau, Field Operations, Service Centers, and the Regulation Division. The sources of cash receipts and the District's bureaus, offices and offsite locations that collect these receipts are as follows:

Resource Area	Types of Cash Receipt
Finance Bureau	<ul style="list-style-type: none"><li>• Property Tax Remittances</li><li>• Lessee Payments</li><li>• COBRA and Retiree Insurance Premiums</li><li>• Customer Payments</li><li>• Staff Cellular Phone Usage</li><li>• On-line Public Auction Sales</li></ul>
Regulation Division	<ul style="list-style-type: none"><li>• Permit Fees</li><li>• Fines and Penalties</li></ul>
Service Centers	<ul style="list-style-type: none"><li>• Permit Fees</li><li>• Lessee Payments</li></ul>
Public Records Office	<ul style="list-style-type: none"><li>• Public Records Request Fees</li></ul>
Field Stations	<ul style="list-style-type: none"><li>• Scrap Metal Sales</li><li>• Used Oil and Oily Rag Sales</li><li>• Key Deposits</li></ul>

The Auditor General's audit recommended that the District enhance its controls over the cash receipts process and establish procedures to:

- Restrictively endorse all checks received at the point of collection.
- Date stamp checks received directly by the Cashier.
- Record, either on a transfer document or on the face of the check, the date of original receipt for checks not directly received by the Cashier
- Limit the amount of checks and cash on hand to no more than \$125,000.
- Maintain checks and cash in a secure location until deposited with the bank.



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As a result of the audit, the Finance Bureau committed to implement the recommended internal control procedures and continue to evaluate the cash receipts processes in light of the risks identified by the audit. Our review of cash receipt internal controls are summarized in the following sections.

### **Restrictive Endorsement and Date Stamp Checks**

We randomly selected over 1,250 checks to verify whether the checks received by the Cashier or other bureaus, offices and offsite locations (Orlando, Okeechobee, West Palm Beach and Fort Myers Service Centers) were restrictively endorsed at the point of collection. We also examined the checks to verify whether the Cashier date stamped the checks upon receipt. These checks were primarily from permit applicants, lessees, engineering firms, county tax collectors, District employees for personal cell phone usage, and former employees for medical insurance. Most of the 1,250 checks that we reviewed were directly received by the Cashier during FY 2015; however, this sample also included checks that were directly received by Regulation, Service Centers, and Field Stations, and then forwarded to the Cashier.

Our review indicated that in most cases the Finance Bureau complied with the existing and newly implemented internal controls over the cash receipts process. However, we noted 32 instances, where, either the restrictive endorsement or date stamp was omitted on the check. Further analysis of these instances revealed that 24 occurred while the Cashier was out of the office on sick leave. Training the Cashier's replacement to restrictively endorse and date stamp the checks would eliminate this omission. The remaining eight instances represents a 0.6% error rate, which is insignificant.

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## **Record the Date of Original Receipt for Checks Not Directly Received By the Cashier**

The Auditor General found that the timeliness of permit fee deposits originating from District Service Centers could not be determined because the date of receipt was not recorded in District records. As a result, the Auditor General recommended changes to the cash receipt process at Service Centers.

Our review of current Regulation and Service Centers cash receipts procedures revealed that changes have been made to strengthen payment tracking and check safekeeping processes. These changes include implementation of an Access database program to better track permit application payments and implementation of better procedures for securing permit application checks.

When checks are received in the Service Centers or the Regulation Division at District Headquarters they are immediately recorded in the Regulatory System and a pre-numbered receipt is generated. Service Centers forward the checks and pre-numbered receipts to District Headquarters on a daily basis. When received, the information is recorded in the Regulation Access database. On a weekly basis, the Access database is reconciled to ensure that all checks that were recorded in the Regulatory system were received in District Headquarters and were forwarded to Finance. Further, Regulation and Service Centers now secure permit applicant checks in a locked file cabinet. The existing system of internal controls over cash receipts including the new procedures are as follows:

- Service Center staff prepares a pre-numbered receipt, which includes the permit applicant, check amount and number, and the date received. The receipt and check is forwarded to the Regulation Division at District Headquarters.
- Service Center staff posts the receipt to the ePermitting system and a copy is sent to the applicant.
- Service Centers now mail permit applicant checks to District Headquarters daily or on the same day the check is received. In the past, check receipts were sent to District Headquarters once per week and were not properly secured in a locked file cabinet before they were sent.
- Upon receipt of the checks from Service Centers, Regulation staff records the checks into the Access database, restrictively endorses the checks and then forwards them

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twice weekly to Finance for deposit in the District's SunTrust account. However, if Regulation's permit technicians do not have time to enter the checks into the Access database, the checks are locked in a file cabinet and entered in the database on the next day.

We found that checks originating from Service Centers were not restrictively endorsed until received by Regulation instead of at the point of collection. However, the risk of check misappropriation is reduced through compensating controls that require Service Center staff to prepare pre-numbered receipts for the permit application checks received. The pre-numbered receipts are mailed with the checks to Regulation on the same day they are received. A copy is also sent to the applicant.

The District also receives miscellaneous revenue from the sale of recyclables such as oil, oily rags and scrap metal. For calendar year 2014, recyclable sales totaled \$56,856. These payments are usually sent to the Field Stations and forwarded to Budget Bureau staff at Headquarters that support the Operations, Engineering and Construction Division for account coding and then sent to the Cashier for restrictive endorsement, date stamp and deposit. Field Stations should consider having vendors send payments from the sale of scrap and other recyclables directly to the Cashier. However, if any cash receipts are received by the Field Stations, they should consider restrictively endorsing these payments at the point of collection.

### **Limit the Amount of Checks and Cash On Hand to no More Than \$125,000**

The Auditor General noted two occasions where the cash receipts totaling in excess of \$125,000 were not deposited within 24 hours of receipt as required by District procedures. To ensure that checks are deposited promptly, the District obtained an automated check scanner from SunTrust that enables the Cashier to deposit daily check receipts to the District's SunTrust operating account from the Cashier's office. Thus, checks received at District Headquarters can be immediately deposited via the check scanner. The Cashier can now deposit property tax remittances and other checks totaling in excess of \$125,000 in the SunTrust operating account through the check scanner, rather than having to take deposits to the nearest SunTrust branch.

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## **Maintain Checks and Cash in a Secure Location Until Deposited with the Bank**

Checks received by Service Centers are mailed on a daily basis to Regulation for further processing. Regulation then forwards the checks twice weekly to the Cashier. Checks that are not forwarded are locked and secured in a file cabinet.

The SunTrust check scanner has essentially eliminated the time between when the Cashier receives the checks and when they are deposited in the District's operating account. However, in rare circumstances where the Cashier is unable to deposit the day's check receipts to the operating account, the checks are maintained in a locked file cabinet drawer located in the Cashier's office, which is limited to the Cashier and Finance Bureau staff responsible for cash receipt processing.

Cash collections primarily consist of currency and coin payments by District staff for personal cellular phone usage, and private citizens for public record requests. These payments are secured in a locked file cabinet in the Cashier's office until they are taken to the bank for deposit, which is usually weekly.

## **Segregation of Duties for Well Permit Application Processing**

The District is responsible for processing all well permit applications for locations in Monroe County, Charlotte County, and for Broward County all well construction that is 12 inches or more in diameter. Well permit applications for the remaining areas within the District's boundaries are processed by their respective counties. The District offers well permit applicants the option of either sending the application via the mail or using the ePermitting on-line system. For FY 2015, the District processed approximately one well permit application per month. District well permit fees are \$100 per application.

The Auditor General found that one employee was responsible for issuing receipts for well permit applications, transferring the funds to the Cashier for deposit, recording the data in the Regulation database, and issuing the permit. As a result of the lack of segregation of duties, the Auditor General recommended that the District separate well permitting application duties so that one employee does not have access to all phases of the process.

Regulation has revised its well permit application process to segregate cash collection and well permit application review for permits received through the mail. A permit technician is responsible for processing the permit application check and a different Regulation employee is

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responsible for processing the application. For well permit applications received through the ePermitting on-line system, the checks are deposited directly into a Bank of America account bypassing Regulation staff. Our review of well permits issued in FY 2015 indicated that 5 of the 12 well permit applications were received through the District's ePermitting system.

## **Recommendations**

- 1. Evaluate the benefits of having Service Centers and Field Stations restrictively endorse all checks at the point of collection.**

**Management Response:** Management agrees with the recommendation and will provide each location that receives customer checks with a stamp to restrictively endorse the checks.

**Responsible Division:** Administrative Services/Finance Bureau

**Estimated Completion Date:** Completed

- 2. Train the Cashier's back-up to restrictively endorse and date stamp checks received by the Cashier's office.**

**Management Response:** Management agrees with the recommendation and will instruct staff who are temporarily assuming the role of Cashier in how to properly handle checks.

**Responsible Division:** Administrative Services/Finance Bureau

**Estimated Completion Date:** Completed

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## **Reimbursement for Personal Cellular Phone Usage**

In accordance with District procedure, *Wireless Device, Chapter 230-113*, cellular phones are made available to District employees and contractors where the benefits will substantially enhance their job performance. District management determines whether an employee should be assigned a District cellular phone. The IT Asset Management Section and management monitor cellular phone use to reassess the employee's continued need for a cellular phone.

The District's IT Asset Management Section reported that 487 cellular phones have been assigned to District employees. Of this total, 192 are smartphones assigned to Governing Board members, attorneys and other staff. The remaining 295 are standard phones with pay as you go plans that also have 200 mobile to mobile minutes and 200 nights and weekends minutes. The District started offering employees that are required to have a cellular phone, a new option of receiving a stipend, which pays for a portion of an employee's cellular phone bill. The stipend for a high volume use employee is \$58 per month and \$38 per month for standard use. Biannually, the employee's supervisor reviews whether the business purpose for the stipend still exists.

District cellular phone plan rates were established using rates previously negotiated by either the Government Services Administration, the State of Florida or other government negotiated plans. Hence, the District meets with service providers annually to review cellular phone options and pricing. Currently, District cellular phone plans vary significantly from the lowest rate of \$2.50 per month under a pay as you go for voice to a \$93 per month plan with 450 pooled minutes.

Under the pay as you go plan, the District pays for voice at \$0.04 per minute unless the minutes are applied to the 200 mobile to mobile minutes and 200 nights and weekends minutes. This type of plan is generally for District employees who routinely work in remote areas where communications are necessary for safety purposes. Under a pooled plan, one or more users in the pool may exceed their contracted minutes of usage without additional charges, as long as the usage of all of the users in the pool does not exceed the total pooled minutes. The pooled plans tend to level out or balance usage among pool users.

District wireless procedures require employees to pay the District for personal calls made using District assigned cellular phones. District employees self-report their monthly personal cellular phone usage and then forward the bill to their supervisor for review. Under the current process, the District expends a substantial amount of resources administering employee

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reimbursements for personal cellular phone usage, which are for the most part small amounts. For the period October 2014 through May 2015, employees have reimbursed the District a total of \$2,732 for personal cellular use. In FY 2014, the District received \$4,609 from employees for personal cellular phone use through 488 reimbursement transactions of which, 294 were cash payments. The following table summarizes employee reimbursements for FY 2014:

Reimbursement Range	Total Reimbursement Amount	# of Transactions	% of Total Transactions
\$0.05 - \$1.00	\$41	107	22%
\$1.01 - \$3.00	162	80	16%
\$3.01 - \$10.00	997	163	33%
\$10.01 - \$20.00	1,030	72	15%
\$20.01 +	2,379	66	14%
<b>Total</b>	<b>\$4,609</b>	<b>488</b>	<b>100%</b>

Based on our review of the cellular phone plans and accounting records available, we found that although the District incurred little expense for employee personal cellular use employees are required to reimburse the District. We determined that at least \$1,072 of the \$4,609 in employee reimbursement was from smartphone pooled plan participants, which did not cost the District any additional expense for their personal use. The remaining reimbursements were from employees in plans with 200 mobile to mobile and 200 nights and weekend minutes that are available to absorb business and personal use minutes but we were unable to determine the plan minutes that were applied to personal use, which reduce billings to the District.

Accounting for employee reimbursements involve multiple staff from IT Asset Management, Finance and the cell phone user's Office/Bureau/Section. This onerous process starts with IT Asset Management staff reviewing the individual monthly cellular phone bills and then forwarding them to the cellular phone user's supervisors before it is distributed to the cellular phone user, who reviews the bill, prepares payment to the District for personal use and then takes the payment to the Cashier. Upon collection, the Cashier prepares a miscellaneous receipt for the payment and provides it to the employee. The Cashier then enters the cash receipt in the financial records and secures the cash payment in a locked cabinet. Before driving to the bank and making a deposit, the Cashier prepares a deposit slip for all deposits including reimbursements. As part of this process, the Cashier's Supervisor and other Finance Bureau management also review the reimbursement transactions. This analysis of District staff time used to administer the

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reimbursement process indicates that the cost exceeds the nominal amount of money collected for employee personal use.

To streamline this process and reduce the cost of administering cellular phone usage, we recommend that the District revise its wireless procedure to permit reasonable incidental use provided that it is infrequent and brief. In our view, it would be cost efficient for the District to restrict personal use and discontinue employee reimbursements for this use unless it is other than infrequent. The IT Asset Management Section should continue monthly cellular phone bill monitoring to identify non-District use and ensure that employee personal use is incidental.

Another alternative to consider is to phase out the District cellular phone plans and move the remaining employees, whose job responsibilities require a cellular phone, to a District provided stipend. Stipends virtually eliminate the need for District staff to administer and monitor employee cellular phone usage.

## **Recommendations**

### **3. Revise current wireless device procedures to permit reasonable incidental use and discontinue cellular phone fee.**

**Management Response:** Management agrees with the recommendation and will discontinue the requirement for District cell phone users to pay the District for reasonable incidental personal cell phone usage.

**Responsible Division:** Administrative Services/IT Bureau

**Estimated Completion Date:** October 1, 2015

### **4. Continue IT Asset Management Section monthly cellular phone bill monitoring to identify non-use and ensure that employee personal use is incidental.**

**Management Response:** Management agrees with the recommendation and will continue to monitor monthly cell phone bills to ensure that any personal use is reasonable and incidental.

**Responsible Division:** Administrative Services/IT Bureau

**Estimated Completion Date:** October 1, 2015



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- 5. Consider phasing out the current cellular phone plans and move the remaining employees in the District cellular phone plans to a District stipend payment plan.**

**Management Response:** Management agrees with the recommendation and is transitioning smart-phone users, with the exception of certain upper management, to the stipend.

**Responsible Division:** Administrative Services/IT Bureau

**Estimated Completion Date:** October 1, 2015

**SOUTH FLORIDA  
WATER MANAGEMENT DISTRICT**

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**Operational Audit**



STATE OF FLORIDA  
AUDITOR GENERAL  
DAVID W. MARTIN, CPA

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### BOARD MEMBERS AND EXECUTIVE DIRECTORS

South Florida Water Management District Board Members and Executive Directors who served from October 2010 through June 2013 are listed below:

Joe Collins to 3-28-13, Chair from 3-10-11 to 3-13-13  
Eric Buermann to 6-7-11, Chair to 3-9-11  
Daniel T. O'Keefe from 5-10-11, Chair from 3-14-13 (1)  
Kevin P. Powers, Vice Chair from 5-12-11 (2)  
Charles J. Dauray to 5-9-11, Vice Chair from 3-10-11 to 5-9-11 (2)  
Jerry Montgomery to 3-16-11, Vice Chair to 3-9-11 (1)  
Rick Barber from 3-29-13 (3)  
Anne "Sandy" Batchelor  
Daniel DeLisi from 5-10-11 to 2-21-13 (3)  
Shannon A. Estenoz to 12-10-10 (4)  
Mitch Hutchcraft from 3-29-13  
James "Jim" Moran from 5-10-11 (5)  
Juan Portuondo from 6-8-11  
Timothy W. Sargent from 5-10-11 (4)  
Glenn J. Waldman

Blake Guillory, Executive Director from 9-5-13  
Ernie Barnett, Interim Executive Director from 6-14-13 to 9-4-13  
Melissa L. Meeker, Executive Director from 6-1-11 to 6-13-13  
Tommy Strowd, Interim Executive Director from 5-1-11 to 5-31-11  
Carol Wehle, Executive Director to 4-30-11

- Notes: (1) Board member position vacant from March 17, 2011, through May 9, 2011.  
(2) Vice Chair position vacant from May 10, 2011, through May 11, 2011.  
(3) Board member position vacant from February 22, 2013, to March 28, 2013.  
(4) Board member position vacant from December 11, 2010, through May 9, 2011.  
(5) Board member position vacant from July 20, 2009, through May 9, 2011.

The audit team leader was Diana G. Garza, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at [marilynrosetti@aud.state.fl.us](mailto:marilynrosetti@aud.state.fl.us) or by telephone at (850) 412-2881.

This report and other reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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**SOUTH FLORIDA WATER MANAGEMENT DISTRICT**

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**EXECUTIVE SUMMARY**

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Our operational audit of the South Florida Water Management District (District) disclosed the following:

**ADMINISTRATIVE MANAGEMENT**

**Finding No. 1:** The District had not implemented adequate policies and procedures for the mitigation, detection, and reporting of fraud.

**Finding No. 2:** The District needed to develop or enhance written policies and procedures for several functions related to its financial operations and related activities.

**Finding No. 3:** The District did not always comply with State or its own record retention requirements.

**CASH MANAGEMENT CONTROLS**

**Finding No. 4:** The District had not established procedures to ensure compliance with State requirements governing collateral management for public deposits.

**Finding No. 5:** The District's bank account reconciliation procedures needed improvement.

**REVENUES AND COLLECTIONS**

**Finding No. 6:** Controls over the District's general fee collections could be enhanced.

**Finding No. 7:** The District's permit fee refund procedures did not comply with law.

**PROCUREMENT OF GOODS AND SERVICES**

**Finding No. 8:** The District's monitoring procedures of procurement card limits could be improved.

**Finding No. 9:** Controls over the District's communication expenditures could be improved.

**INSURANCE**

**Finding No. 10:** The District needed to enhance procedures to ensure its annual self-insurance plan reports are timely filed with the Florida Department of Financial Services, Office of Insurance Regulation.

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**BACKGROUND**

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Established in 1972, the South Florida Water Management District protects and manages water resources in a sustainable manner for the continued welfare of the citizens across the area it serves. The District is one of five water management districts created under the Water Resources Act of 1972 and includes Broward, Collier, Glades, Hendry, Lee, Martin, Miami-Dade, Monroe, Palm Beach, and St. Lucie Counties and portions of Charlotte, Highlands, Okeechobee, Orange, Osceola, and Polk Counties. Governance lies with a nine-member board consisting of representatives from specific geographic areas within District boundaries. Each member is appointed by the Governor and confirmed by the Senate. An Executive Director is appointed by the Board, subject to approval by the Governor and confirmation by the Senate.



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**FINDINGS AND RECOMMENDATIONS**

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**Administrative Management**

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**Finding No. 1: Written Policies and Procedures - Fraud**

Policies and procedures for communicating and reporting known or suspected fraud are essential to aid in the detection and prevention of fraud. Such policies and procedures should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies and procedures are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies and procedures serve to clearly identify actions constituting fraud and to establish the responsibilities for investigating potential incidences of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent.

The District had not developed adequate policies and procedures for communicating and reporting known or suspected fraud. The District's fraud-related policies and procedures included Article III, Section 220.62, *Corrective Action Procedure*, which identified a corrective action plan in the event of employee misconduct; Article IV, Section 101.91, *Ethics*, which was adopted by reference to Part III, Chapter 112, Florida Statutes, entitled "Code of Ethics for Public Officers and Employees;" and Article V, Section 101, *Whistle-Blowers*, which identified the process for disclosing, investigating, and maintaining the confidentiality of information regarding allegations from whistleblowers. Although the District's policies and procedures addressed misconduct, ethics, and whistleblowing, they did not identify actions constituting fraud, reporting procedures for suspected fraud, responsibility for fraud investigation, and consequences for fraudulent behavior. In the absence of such policies and procedures, the risk increases that a known or suspected fraud may be identified but not reported to appropriate authorities.

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**Recommendation:** The Board should revise its formal fraud policies and procedures to identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences of fraudulent behavior.

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**Finding No. 2: Written Policies and Procedures - Collections and Refunds**

Written policies and procedures that clearly define the responsibilities of employees are essential to provide both management and employees with guidelines regarding the effective, efficient, and consistent conduct of District business and the effective safeguarding of District assets. Written policies and procedures also help ensure consistent continuation of critical business practices by assisting in the training of new staff or assisting in the implementation of changes in key controls or personnel. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed into operation, provide management additional assurance that District activities are conducted in accordance with applicable laws, ordinances, and other guidelines; and that District financial records provide reliable information necessary for management oversight.

During our review, we noted that written policies and procedures needed to be enhanced or established for the following functions:

- **Accounts Receivable.** The District's accounts receivable manual was last updated on October 29, 2009. Inquiry of District personnel disclosed that there had been significant changes in the District's organization that led to procedural changes that were not yet reflected in the manual.
- **Key Permit Access Refunds.** The District issued key permits for temporary access to District rights of way by local governments, contractors, and others. A key permit deposit was required for the key(s) issued to access the secured District properties. Upon return of the key(s), the deposit was refunded. However, the District had not developed written procedures relating to this process.

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**Recommendation:** The District should develop or enhance written procedures for the above-noted areas and ensure that these procedures are continuously updated for changes in key controls or personnel.

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### Finding No. 3: Public Records Retention

Pursuant to Chapter 119, Florida Statutes, the District is required to maintain public records in accordance with the Florida Department of State's record retention schedule. Failure to maintain records in accordance with State law could result in District officials being subjected to the penalties specified in Section 119.10, Florida Statutes.

Our audit disclosed that the District did not always comply with State or its own record retention requirements, as follows:

- **Personnel Records.** According to the State's record retention schedule, personnel action forms must be maintained for 25 fiscal years after separation or termination of employment while direct deposit authorization forms must be maintained for 5 fiscal years after final action. While the District had no written procedures, District personnel indicated that any personnel forms older than two years were supposed to be filed and stored for future reference. Our test of 25 employees, who received salary payments during the months of March 2011, May 2012, and June 2013 disclosed that a direct deposit authorization form was not maintained for 20 employees and personnel action forms supporting current salaries and positions were not maintained for 7 employees. District personnel stated that former District personnel did not properly file all personnel forms and that all personnel forms were now scanned and stored in the District's online system. To provide for efficient personnel administration, the District should ensure that personnel files contain all required documentation, including documentation evidencing employee authorizations for direct deposit and personnel action forms.
- **Vehicle Usage Logs.** District procedures required that vehicle usage logs be maintained for at least one year after an applicable audit has been released, at which time District personnel must contact Records Management for log destruction.

As of June 2013, the District had 627 motor vehicles that were for use by District employees for official District business. For 15 vehicles, we selected a total of 70 months (the months of January 2011, July 2011, November 2011, March 2012, and June 2013 for 13 vehicles; the months of November 2011, March 2012, and June 2013 for 1 vehicle; and the months of March 2012 and June 2013 for 1 vehicle) to determine whether vehicle usage logs were properly maintained for these vehicles for the selected months. Our test disclosed that vehicle usage logs were not maintained for 23 of the 70 months. According to District personnel, there was a misunderstanding as to how long the logs should be kept on site; therefore, some of the logs were improperly destroyed or sent to the warehouse for storage but could not be located. Absent vehicle usage logs for each vehicle, District records did not evidence that vehicles were only used for authorized District purposes.

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**Recommendation:** The District should ensure that all District records are maintained as required by Chapter 119, Florida Statutes. The District should also revise its record retention procedures to be consistent with the State's record retention schedule.

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**Cash Management Controls**

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**Finding No. 4: Collateral Management**

Pursuant to Chapter 280, Florida Statutes, the District, as a public depositor, had moneys on deposit in banks that were qualified public depositories. Qualified public depositories are required by the State Chief Financial Officer (CFO) to pledge sufficient collateral to secure public deposits held. In connection with the administration of this collateral program, Section 280.17(2), Florida Statutes, requires each public depositor to execute a form prescribed by the CFO for identification of each public deposit account and obtain acknowledgement of receipt on the form from the qualified public depository at the time of opening the account, and maintain the current public deposit identification and acknowledgement form. Additionally, Section 280.17(5), Florida Statutes, requires each public depositor to confirm annually that public deposit information as of September 30 has been provided by each qualified public depository and is in agreement with public depositor records. Further, Section 280.17(6), Florida Statutes, requires each public depositor to submit, not later than November 30, an annual report to the CFO in a prescribed format.

The District's records did not evidence compliance with these requirements, including a Public Deposit Identification and Acknowledgement Form for each public deposit account; confirmations of public deposit information from the District's local depositories as of September 30, 2011, and 2012; and Public Depositor Annual Reports required to be filed by November 30, 2011, and 2012. If a public depositor does not comply with the requirements on each deposit account, the protection from loss provided in Section 280.18, Florida Statutes, is not effective as to that deposit account. In response to our inquiry, District personnel indicated that they were unaware of the statute and would begin filing as of November 2013.

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**Recommendation:** The District should establish procedures to ensure compliance with State collateral management requirements.

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**Finding No. 5: Bank Account Reconciliations**

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. As of June 2013, the District had 14 bank accounts and 1 e-recording account (Internet-based for customer payments).

District procedures required bank account reconciliations to be completed within 30 calendar days after receipt of bank statements. District personnel did not document the date bank statements were received, but indicated that bank statements were received 10 to 14 days after month end, resulting in a 44-day guideline for preparing the bank account reconciliations. Our test of 77 monthly bank account reconciliations from 6 bank accounts for the period November 2010 through June 2013 disclosed that 25 (32 percent) bank account reconciliations were prepared from 50 to 397 days after the bank statement date, or 6 to 353 days after the 44-day District guideline, with an average of 56 days after the 44-day District guideline.

District management indicated the delays were due to employee turnover and new employee training. The lack of timely bank account reconciliations increases the risk that errors or fraud could occur without being promptly detected.

**Recommendation:** The District should ensure that its established procedures are followed regarding the timely preparation of bank account reconciliations.

### Revenues and Collections

The District has the authority to collect ad valorem (property) taxes from landowners within its 16-county jurisdiction. Tax revenues are the District's primary source of funds. Other sources include Federal and State revenue, license fees, regulatory fees, grants, agricultural taxes, investment income, and bond proceeds. Licenses and regulatory fees revenue includes income from the sale of vehicle license plates and various permit fees. The District collected revenue of approximately \$1,359,200,000 during the period October 2010 through June 2013. Of this total, approximately \$1,085,640,000 was received via electronic fund transfer, \$272,600,000 was received in person or through the mail and deposited through the District Cashier (Cashier), and \$960,000 was received electronically via the Internet.

#### Finding No. 6: Cash Collections

The District is responsible for establishing adequate controls to provide reasonable assurance that collections are safeguarded against loss from collection to deposit. The Cashier was responsible for collection and deposit of revenues and fees, including those received in person and through the mail at its Service Centers located in Ft. Myers, Naples, Okeechobee, and Orlando as well as at District Headquarters (Headquarters). District procedures required that collections received at decentralized locations be delivered to the Cashier for deposit as soon as possible but no later than two working days after receipt, and collections received at Headquarters be delivered to the Cashier for deposit within 24 hours. District procedures also required that cash receipts be deposited by the Cashier within 24 hours of receipt unless the aggregate daily receipts total less than \$125,000.

Our tests of 20 deposits totaling \$70,541,026 and 48 permit fee collections totaling \$33,000 disclosed the following:

- Receipts were not consistently issued for miscellaneous cash received. According to District personnel, receipts were offered, but only prepared for those individuals who requested them. For example, for 2 of 20 deposits tested, the deposits included employee reimbursements for personal use of District cell phones for which receipts were not prepared or issued to the employees. Without the use of receipts, the risk increases that collections may not be properly accounted for and timely deposited in the bank.
- Collections received through the mail were not recorded at the initial point of collection through the use of a mail log or other means. Without logging mail collections and subsequently comparing the collections to amounts recorded and deposited, the risk increases that collections may not be properly accounted for and timely deposited in the bank.
- Checks received by the Service Centers were not restrictively endorsed until received by the Cashier. When checks are not restrictively endorsed immediately upon receipt, the risk of misappropriation of collections is increased.
- Contrary to District procedures, cash receipts totaling \$125,000 or more were not deposited within 24 hours of receipt. Two of the 20 deposits tested contained receipts for permit fees, totaling \$332,514, which were deposited in the bank from 2 to 8 days after receipt. According to the Cashier, deposits were made more on a weekly basis rather than when the receipt reached \$125,000, contrary to the District's procedures. Untimely deposit of collections increases the risk of loss or theft of collections.
- For 6 of the 20 deposits totaling \$1,603,371, and 42 of 48 permit fees tested totaling \$30,600, the timeliness of deposit could not be determined because District records did not evidence the date the moneys were received, including 7 permit fees for which no transfer document was used to evidence the transfer of responsibility for the collections from the employees that collected the fees to the Cashier. Signed transfer



documents should be prepared, dated, and retained for cash from the time of collection to the time of deposit to fix responsibility in the case of loss or theft.

- Checks received for permit fees were not secured while the application was being processed. District personnel stated that fees for permits that had been processed by the permitting staff were kept in a locked cabinet; however, the application fees for unprocessed permits were kept under the cover pages of the application in an unlocked desktop tray until processing. When checks are not secured, the risk of misappropriation of collections is increased.
- Well permit applications received were manually recorded on a log sheet; however, if there were small wells on the same site, multiple permits were issued with only one associated fee. The District did not perform reconciliations of the number of well permits issued to the amount of revenue generated to ensure that all amounts due were received. Such reconciliations are necessary to ensure that collections are adequately supported and accounted for.
- One employee was responsible for issuing receipts for well permit applications, transferring the funds to the Cashier for deposit, recording the data in the regulatory database, and issuing the permit. The District issued 581 well permits totaling \$19,200, during the period October 2010 through June 2013. District personnel indicated that recent staff reductions resulted in only one employee assigned to well permit applications from processing to issuance. Absent an adequate separation of these duties, the risk of misappropriation of collections is increased.

**Recommendation:** The District should establish procedures that require issuance of receipts, a recording of all collections at the initial point of collection, restrictive endorsement of all checks upon receipt, dated evidence of transfers among employees, and a detailed listing of well permits that are reconciled to well permit fees collected. The District should also ensure that District policies and procedures are followed when securing collections until deposited and ensure that collections are deposited in a timely manner. In addition, the District should separate duties for well permit applications to ensure that one employee does not have access to all phases of a transaction or implement appropriate compensating controls.

#### **Finding No. 7: Permit Fee Refunds**

District Rule 40E-1.607, Florida Administrative Code, states that permit application processing fees are nonrefundable unless the proposed activity is found to be exempt or the amount is incorrect. During the period October 2010 through June 2013, the District issued 473 refunds, totaling \$548,140, related to 458 applications. Our inquiry disclosed that District practice was to issue the applicant a refund if the application was withdrawn within 30 days of receipt and District personnel extended minimal or no effort on the application (and therefore no value was received by the applicant). District personnel indicated that during the period October 2010 through June 2013, the District issued refunds totaling \$24,850 for 27 applications withdrawn within 30 days. However, this practice was contrary to the established Rule.

District personnel further advised us that the five water management districts and the Florida Department of Environmental Protection had proposed revisions to the Rule so that if an application is withdrawn and resubmitted within a one-year period, the fees paid on the initial application will be transferred to the resubmitted application. Subsequently, proposed revisions to the Rule were adopted effective October 1, 2013.

**Recommendation:** The District should ensure compliance with current regulations regarding permit application fee refunds.

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**Procurement of Goods and Services**

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**Finding No. 8: Procurement Cards**

The District provides a procurement card (p-card) to approved employees in an effort to efficiently and effectively process and expedite low dollar purchases of goods and services. The District appointed several Purchasing Specialists and developed a comprehensive *Procurement Card Manual* that addresses the various management controls over the issuance, use, and cancellation of p-cards. Each p-card was issued in the name of the employee and the District, thereby identifying the individual as a governmental buyer. P-cards were subject to the same rules and regulations that applied to regular District purchases and the District established written p-card procedures to provide users with additional guidance on the proper use of p-cards. The District issued approximately 390 p-cards to employees, who incurred charges for purchased goods and services totaling \$6.9 million during the period October 2010 through June 2013.

Our comparison of usage to monthly credit limits during the period October 2010 through June 2013 for all cardholders disclosed the following:

- We noted 23 p-cards with credit limits ranging from \$1,500 to \$15,000 that were not used from October 2010 through June 2013.
- We noted 149 p-cards with credit limits ranging from \$1,500 to \$15,000 that had total actual charges that were less than 50 percent of the credit limits from October 2010 through June 2013.

District personnel stated that the risk associated with excess credit limits is acceptable given the District's internal control over p-cards. However, effective monitoring of the reasonableness of the p-card monthly credit limits reduces the risk that unauthorized purchases may be made and not detected in a timely manner.

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**Recommendation:** The District should enhance its p-card controls to ensure a periodic review of the reasonableness of p-card limits and cancellation of any unnecessary p-cards.

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**Finding No. 9: Wireless Services and Devices**

During the period October 2010 through June 2013, the District paid three carriers \$1,234,840 to provide wireless devices, and related services, throughout its 16 counties. As of June 2013, a total of 698 devices were provided to employees. The District's wireless procedures required department heads to review wireless device assignments annually during the budget development process; however, District records did not evidence that these reviews were performed. During four months we selected for testing, we noted a total of 97 wireless devices not used from two to four months, including 83 not used for two of the months tested, 8 not used for three of the months tested, and 6 not used for all four months tested. Monthly base fees for these unused devices ranged from \$5 to \$71.

Additionally, our test of six invoices for wireless devices for these same months disclosed that improvements in controls were needed, as follows:

- Four invoices totaling \$88,966 did not show evidence of preaudit or identification of any reimbursable personal calls. The IT Department forwarded the invoices to the appropriate department heads for review. After their initial review, the department heads distributed the invoices to their respective employees. The District used an "honor system" in which employees self-reported and reimbursed the District for their personal calls, while the department heads reviewed the calls identified by employees on a Monthly Cellphone Usage Sheet. However, the billings were not reviewed by department heads to ensure completeness of the charges identified as personal by users and subsequent reimbursements were not verified. Therefore, District



records did not demonstrate that all personal calls identified were reimbursed. Also, when personal calls are not timely and properly reimbursed, the District is paying for nonpublic purpose use.

- District policy (Section 230-113, Statements of Procedure) provided that all calls for incidental personal use and all non-business related uses were to be reimbursed within 30 days of receipt of the invoice. Payments were to be made to the District Cashier by cash or check. While the District had specific procedures in place, the procedures were not consistently enforced. According to District personnel, some employees submitted reimbursements within the 30-day guideline; however, others paid an entire year's worth of reimbursements at once, contrary to the District's policy.

A lack of effective monitoring procedures over the District issued wireless devices and usage/billing increases the risk that the District may be paying for wireless devices not needed or for charges that do not serve a public purpose.

**Recommendation:** The District should enhance its monitoring procedures of wireless charges and of wireless device assignments to ensure that it is not paying for any unnecessary charges or costs. The District should also enhance its controls over the employee reimbursement process to ensure that all reimbursable calls are properly identified, reviewed, accounted for, subsequently reimbursed, and properly recorded in a timely manner.

### Insurance

#### Finding No. 10: Self-Insurance Plan

The District provides for general, health, automobile, and workers' compensation coverage through a self-insurance plan pursuant to Section 112.08, Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to annually submit its self-insured plan, along with a certification as to the actuarial soundness of the plan, to the Florida Department of Financial Services, Office of Insurance Regulation (OIR) to obtain approval of the plan. This section further provides that the OIR will not grant approval of the self-insured plan unless it determines that the plan is designed to provide sufficient revenues to pay current and future liabilities as determined according to generally accepted actuarial principles. After implementation of the approved plan, the District must annually submit to the OIR a report that includes a statement prepared by an actuary as to the actuarial soundness of the plan. The annual report is due 90 days after the close of the fiscal year of the plan, and since the District's plan year closes on December 31, the annual report should be filed by March 31 of each year.

District records did not evidence that the reports for the plan years ended December 31, 2011 or 2012, were timely submitted to the OIR. Further, as of August 2, 2013, OIR's Web site did not list the District as having filed this information for the plan years ended December 31, 2011 or 2012. Untimely filing of annual reports limits the OIR's ability to properly monitor the District's plan.

**Recommendation:** The District should enhance its procedures to ensure that annual self-insurance plan reports are timely filed with the OIR.

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

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The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from June 2012 to August 2012 and from February 2013 to October 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this performance audit are described in Exhibit A. Our audit included selection and examinations of various records and transactions from October 2010 through June 2013, and selected actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

**AUTHORITY**

Pursuant to the provisions of Section 11.45(2)(f), Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

Management's response is included as Exhibit B.



**EXHIBIT A**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Organizational Issues	Reviewed the duties and responsibilities administratively assigned to the District, and examined and reviewed documentation such as organization charts and minutes of governing board meetings.
Written Policies and Procedures	Determined whether the District had written policies and procedures in place for major District functions.
Budgetary Control	Obtained the District's approved budgets for the 2010-11 and 2011-12 fiscal years and reviewed applicable policies and procedures for compliance with requirements established in law.
Cash Management	Obtained a list of cash collection points for selected reviews of physical security and determined whether established policies and procedures were being followed. Also, reviewed bank account reconciliations for timeliness, completeness, and supervisory approval. Also, reviewed District procedures to ensure that electronic funds transfers were properly authorized, processed, and documented. Reviewed banking agreements and electronic funds transfer agreements for sufficiency in providing adequate safeguards.
Investments	Reviewed District policies governing investments to determine compliance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed procedures for investing surplus funds.
Tangible Personal Property	Compared subsidiary ledgers with control accounts and reviewed procedures for disposal of surplus property.
Long-Term Debt	Reviewed policies and procedures for issuing debt to determine compliance with applicable provisions of laws, rules, regulations, District policies and procedures, and other guidelines.
Revenue and Cash Receipts	Reviewed policies and procedures for assessing and collecting permit fees, taxes, and other revenue sources to determine compliance with applicable provisions of laws, rules, regulations, District policies and procedures, and other guidelines. Also, tested the accuracy of amounts collected and the timeliness of cash receipts deposited in the bank.
Payroll and Personnel	Tested payroll disbursements to determine whether expenditures were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed severance payments to ensure compliance with Section 215.425, Florida Statutes.
Procurement of Goods and Services	Tested disbursements to determine whether expenditures were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed District's controls over procurement cards.

**EXHIBIT A (CONTINUED)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Contracts	Tested contractual services payments to determine whether they were made in accordance with applicable laws, rules, regulations, contracts, District policies and procedures, and other guidelines.
Land	Tested land acquisitions, disposals, and lease transactions and performed tests to determine whether transactions were made in accordance with applicable laws, rules, regulations, District policies and procedures, and other guidelines. Also, reviewed the District's controls over land transactions.
Insurance	Reviewed the methods used for acquiring commercial insurance coverage to determine whether the basis for selecting the carrier was documented in the District's records and conformed to good business practices. Also, for the District's self-insured policies, reviewed evidence of reporting to the Office of Insurance Regulation the statement prepared by an actuary as to the actuarial soundness of the self-insurance plan.
Communication Devices	Reviewed District policies and procedures to determine whether the District limited the use of, and documented the level of service for, land-line and wireless communication devices.
Motor Vehicle Assignment and Use	Determined whether the District maintained adequate vehicle utilization records, and whether District policies and procedures were followed. Also, reviewed District records to determine whether repair parts purchased or issued from inventory were properly recorded in motor vehicle inventory and repair records.
Travel Expenditures	Performed an analysis of travel expenditures for the 2009-10, 2010-11 and 2011-12 (through May 2012) fiscal years and compared to number of employees to determine materiality and reasonableness. Also reviewed District controls over travel expenditures.

EXHIBIT B  
MANAGEMENT'S RESPONSE



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

January 9, 2014

Mr. David W. Martin, Auditor General  
State of Florida  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

**Subject: Response to the preliminary and tentative audit findings**

Dear Mr. Martin:

Per your letter to the South Florida Water Management District (District), dated December 11, 2013, enclosed please find the District's responses to the preliminary and tentative audit findings and recommendations made as the result of your operational audit of the District.

I would like to thank you for the opportunity to respond to the tentative audit findings for inclusion in the final report. Also, the District would like to take this opportunity to commend your audit staff for the courtesy and professionalism they exhibited during the audit.

Should you need anything further, please contact Christian Flierl, Finance Bureau Chief, at (561) 682-6078 or [cflierl@sfwmd.gov](mailto:cflierl@sfwmd.gov).

Sincerely,

  
Daniel O'Keefe  
Governing Board Chairman

DO/ad  
Enclosures

c: SFWMD Governing Board Members  
Blake Guillory, Executive Director  
Dan DeLisi, Chief of Staff  
Len Lindahl, Assistant Executive Director  
Timothy Beirnes, Inspector General  
Doug Bergstrom, Administrative Services Director  
Chris Flierl, Finance Bureau Chief

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EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE

**Finding No. 1: Written Policies and Procedures - Fraud**

**Recommendation 1 – The Board should revise its formal fraud policies and procedures to identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences of fraudulent behavior.**

**Management Response**

While the District does not have a separate Fraud Policy, we believe that the provisions included in various District documents including the *Office of Inspector General Operating Manual*, the *Whistle-Blowers Policy* and *Corrective Action Procedure* provide guidance as to actions constituting fraud, reporting procedures for suspected fraud, responsibility for fraud investigation, and consequences for fraudulent behavior. However, we will review those documents and make revisions to them if deemed necessary.

**Finding No. 2: Written Policies and Procedures – Collections and Refunds**

**Recommendation 2 – The District should develop or enhance written procedures for the above-noted areas and ensure that these procedures are continuously updated for changes in key controls and personnel.**

**Management Response**

**Accounts Receivable**

The District concurs with the recommendation and will be evaluating the accounts receivable process and procedures and make the appropriate changes.

**Key Permit Access Refunds**

The District has assembled a team to re-evaluate and document the key deposit process. The goal is to design a process that is efficient and effective and which contains internal controls to ensure that District and stakeholder assets are properly safeguarded. Once completed, this process will become the basis for a procedure that will be included in the District Policies and Procedures Manual.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No. 3: Public Records Retention**

**Recommendation 3 – The District should ensure that all District records are maintained as required by Chapter 119, Florida Statutes. The District should also revise its record retention procedures to be consistent with the State's record retention schedule.**

Management Response

**Personnel Records**

The District strives to follow State record retention guidelines. In addition, personnel records are scanned and stored electronically on a bi-weekly basis coinciding with payroll processing. Further, as a result of the audit the District will now maintain the *Authorization for Direct Deposit* forms with the scanned Personnel files as opposed to the maintaining them with the payroll records as was previously done.

**Vehicle Usage Logs**

The District will be implementing an electronic storage system for *Vehicle Usage Logs*. This documentation will be stored on one of the District's data servers for a period of time no less than that specified by the State in Item #224 of the General Records Schedule GS1-SL for State and local Government Agencies.

**Finding No. 4: Collateral Management**

**Recommendation 4 – The District should establish procedures to ensure compliance with State collateral management requirements.**

Management Response

The fiscal year 2013 report was filed in a timely manner and subsequent year's filings have all been scheduled to ensure timely filing. Going forward the District will incorporate the filing of the *Public Depositor Annual Report* as a part of its year end closing procedures.

**Finding No. 5: Bank Account Reconciliations**

**Recommendation 5 – The District should ensure that its established procedures are followed regarding the timely preparation of bank account reconciliations.**

Management Response

The reconciliations in question that were late were the result of the loss of the staff person responsible for performing the reconciliations. This condition was also noted by our external auditors who included it in their Management Letter. Since then the position has been refilled, the District has been performing timely reconciliations, and our external auditors have cleared their comment.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No. 6: Cash Collections**

**Recommendation 6 – The District should establish procedures that require issuance of receipts, a recording of all collections at the initial point of collection, restrictive endorsement of all checks upon receipt, dated evidence of transfers among employees, and a detailed listing of well permits that are reconciled to well permit fees collected. The District should also ensure that District policies and procedures are followed when securing collections until deposited and ensure that collections are deposited in a timely manner. In addition, the District should separate duties for well permit applications to ensure that one employee does not have access to all phases of a transaction or implement appropriate compensating controls.**

**Management Response**

As a result of the audit the District has taken certain steps to enhance controls over the cash receipt process including:

- restrictively endorsing all checks received at the point of collection,
- date stamping checks received directly by the Cashier,
- recording, either on a transfer document or on the face of the check, the date of original receipt for checks not directly received by the Cashier,
- maintaining checks and cash in a secure location until deposited with the bank, and
- limiting the amount of checks and cash on hand to no more than \$125,000.

We will continue to evaluate cash receipts processes in light of the risks identified by the audit and will make the appropriate changes to mitigate those risks.

Further, in light of the concerns expressed in the audit about controls over the well permitting process, including reconciliations and segregation of duties, the District will reevaluate that process and make the appropriate cost effective changes to mitigate those risks.

**Finding No. 7: Permit Fee Refunds**

**Recommendation 7 – The District should ensure compliance with current regulations regarding permit application fee refunds.**

**Management Response**

It should be noted that refunds given, between October 2010 and June 2013, as a result of the District's policy of refunding application fees if the application was withdrawn within 30 days of receipt and District personnel expended minimal or no effort, represented approximately 5% of total refunds given during that time frame (27 permits totaling of \$24,850 in fees). Despite the relative immateriality of the dollars associated with this business friendly practice, the District will work to have rule 40E-1.607 changed to allow for this specific refund.



**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No. 8: Procurement Cards**

**Recommendation 8 – The District should enhance its p-card controls to ensure a periodic review of the reasonableness of p-card limits and cancellation of any unnecessary p-cards.**

**Management Response**

The District has reviewed both the P-card limits and the P-cards which have low utilization and has concluded that P-card limits are appropriate at the current established levels due to the emergency response role of District employees in the event of hurricanes or other disasters. Also, the District has reviewed all P-cards for low utilization. As a result three (3) have been cancelled for non-use. This review will continue on an ongoing basis.

Several measures help mitigate the risk of P-card misuse at the District: 1) an independent auditor is hired to conduct annual reviews of P-card usage and the results demonstrate strong compliance by cardholders; 2) the District closely monitors P-card usage and program compliance by reviewing a large sample size of monthly statements; and 3) the District is piggybacking the State contract with Bank of America which includes no liability for lost or stolen P-cards or fraudulent purchases.

**Finding No. 9: Wireless Services and Devices**

**Recommendation 9 – The District should enhance its monitoring procedures of wireless charges and of wireless device assignments to ensure that it is not paying for any unnecessary charges or costs. The District should also enhance its controls over the employee reimbursement process to ensure that all reimbursable calls are properly identified, reviewed, accounted for, subsequently reimbursed, and properly recorded in a timely manner.**

**Management Response**

In order to enhance the ability to monitor wireless charges and wireless device assignments the District recently purchased VeraSMART Wireless Call Accounting Software. With this software the District will be able to more easily identify wireless devices with low or no usage. This information will be forwarded monthly to the end user's manager for review and justification for continuing phone services.

Regarding the risks that have been identified in the audit concerning reimbursement for personal calls made using District wireless devices, the District will reevaluate that process in light of the risk that this poses to the District and will take the appropriate cost effective actions to mitigate those risks.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No. 10: Self-Insurance Plan**

**Recommendation 10 – The District should enhance its procedures to ensure that annual self-insurance plan reports are timely filed with the OIR.**

**Management Response**

This responsibility has been assigned to the Finance Bureau who will prepare plan financial statements for the plan year (calendar year) to provide to the plan actuary who will prepare the report for submission to the OIR by the March 31 deadline.