
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



Audit of Cooperative Agreements

Report # 04-02

Prepared by
Office of Inspector General

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SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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June 1, 2005

Audit and Finance Committee Members:

Mr. Lennart Lindahl, Chairman
Mr. Michael Collins, Member
Ms Alice Carlson, Member
Mr. Malcolm Wade, Jr., Member

Re: Audit of Cooperative
Agreements,
Report No. 04-02

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S and is part of the approved audit plan. The objective of the audit was to evaluate the adequacy of staff's monitoring of grantees conformance with terms, conditions, and fulfillment of contractual obligation; the close-out process for completed projects; and whether public funds were properly used for their intended purpose. We concluded that, overall, District project oversight staff was diligent ensuring contract compliance. We also found that funds are appropriated for some cooperative agreements well in advance of when they are actually disbursed.

Sincerely,

John W. Williams, Esq.
Inspector General

Enclosure

c: Carol Wehle
Tom Olliff

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INTRODUCTION

In accordance with the Office of Inspector General’s audit plan, we conducted an audit of the South Florida Water Management District’s (the District) Cooperative Agreements.

BACKGROUND

The District has a variety of federal, state and local partnerships that promote water management and conservation efforts through cooperative agreements. A cooperative agreement is defined as an agreement with an educational institution, government or not-for-profit, which may or may not include cost sharing arrangements (commitment of funds or in-kind services) by the parties toward the completion of a project. The District classifies cooperative agreements into four categories:

- | | |
|-------------------|--|
| <i>Grants</i> | The District awards grants on a competitive basis to eligible entities for example, Alternative Water Supply. |
| <i>Research</i> | Non-competitive agreements between the District and educational and not-for-profit institutions. In a typical research agreement, the District contracts directly with the institution. The institution’s cost-share contribution is normally in-kind services, labor discounts and/or other contributions. |
| <i>Cost Share</i> | Non-competitive interagency agreements. In these agreements, the District participates in a percentage of the cost for a mutually beneficial project. The cooperative partner contracts directly with service or construction providers and also conducts solicitations, contractor selection, project management, and payment approvals. To validate the District’s commitment, the cooperative partner contracts with the District to establish payment terms, deliverable schedules and other conditions. |

Other Contractual Agreements in which the District is requested by a sponsoring agency to administer contracts that are fully funded by a legislative general appropriation. These projects include stormwater system improvements and restoration projects. The roll of the District's project and contract managers is to monitor the agreements in accordance with established procurement policies and procedures to ensure technical and administrative compliance with terms and conditions.

Cooperative agreements are ordinarily funded with ad valorem taxes. In order for a project to be considered for cooperative funding, it usually must support one of the four Regional Water Supply Plans initiatives and the participating party must generally share 50% or more of the project's total cost. Although projects under cooperative agreements are subject to District priorities and funding availability, most are not competed.

In all cooperative agreements, District project and contract managers monitor compliance with terms and conditions before approving payment for its cost share percentage. District reimbursement is based on the contractually agreed upon payment schedule, usually after certain tasks or deliverables are completed. The District sometimes advances funds to get the underlying project started for small governments and non-profit organization with insufficient cash flow to fund the project up front.

The District also administers agreements that are funded by legislative general appropriations. These projects include stormwater system improvements and restoration projects. The roll of the District's project and contract managers is to monitor the agreements in accordance with established procurement policies and procedures to ensure technical and administrative compliance with terms and conditions.

Various departments and offices throughout the District administer cooperative agreements but most often are managed by the departments and offices with the expertise to oversee the agreements. For example, Alternative Water Supply projects are managed by the Water Supply Department.

OBJECTIVE SCOPE AND METHODOLOGY

The objective of the audit was to determine the adequacy of monitoring compliance with cooperative agreement terms and conditions and fulfillment of contractual obligations. The scope of our audit included a selection from the 256 cooperative agreements with cities, counties, special district, universities and not-for-profits within District boundaries valued at \$104 million. The District's median contribution towards those projects was approximately \$100,000. We did not review agreements with federal and state government agencies because these agreements are subject to audit by federal and state audit staffs.

Audit procedures included the following:

- Reviewing the District's contract administrator and project manager files.
- Reviewing local government and other organization's records.
- Interviewing cooperative partners and District project managers.
- Conducting project site visits.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards.

AUDIT RESULTS

Executive Summary

Our review of selected cooperative agreements indicated that District partners complied with contract terms and conditions. Our conclusion is based on detailed review of supporting documentation and site inspections. Overall, District project oversight staff was diligent ensuring contract compliance. We found only one instance of non-compliance in which District payment was made before the final deliverable was completed and reviewed. This lapse was a minor exception.

For small local governments with cash flow shortfalls, designated as Rural Economic Development Initiative communities, the District can advance funds to get projects started. These circumstances are rare but when they do occur the District's risk is increased. In order to mitigate this risk, we recommend that management ensure that advanced funds for the project are properly designated by the cooperative partner so they cannot be spent for other purposes. In addition, the District should develop monitoring procedures that require frequent remittance of progress reports for advance funded projects. Monitoring staff should conduct regular site inspections to verify reported progress and to ensure funds have been spent appropriately.

Our selection of cooperative agreements also included a project with a county for vegetation management of tributaries leading to a major waterway. Our observations indicated that the contractor hired by the county was doing a thorough job of exotic vegetation eradication; however, an essential component of vegetation management is follow-up applications. An effective vegetation management program requires consistent periodic reapplication. We recommend that for projects requiring additional follow-up, the District should obtain a commitment from the cooperative partner that they will provide funding for follow-up activities.

Our review also found that funds are appropriated for some cooperative agreements well in advance of when they are actually disbursed. Over the last four fiscal years an average of only 34% of funds budgeted for cooperative agreements were expended in the fiscal year in which they were budgeted.

Project Compliance Review

Our review of selected agreements indicated that cooperative partners complied with contract terms and conditions. Our conclusion is based on detailed review of supporting documentation and site inspections. Overall, District project oversight staff was diligent ensuring contract compliance. We found only one instance of non-compliance in which District payment was made before the final deliverable was completed and reviewed. This lapse was a minor exception. We did note that many projects were behind schedule.

Our sample of cooperative agreements included a cross-section of agreements with universities, local governments and not-for-profits located within the District's boundaries. These agreements represent research, storm water improvements, dredging, and other construction type contracts. We also reviewed agreements that were funded by appropriations from the Florida Legislature. The District is sometimes requested to administer agreements that may not fit into the District's core mission. Assignment of monitoring responsibility for these projects is made by the sponsoring state agency and the District on a case by case basis. For example, the District was requested to oversee local storm water improvement projects.

Whether District administered cooperative agreements are funded by internal or external sources, the expectation is that the District's Project Managers and Contract Specialists will apply standard monitoring processes and procedures to each underlying project. However, because cooperative partners have differing capabilities, the level of monitoring effort may vary depending on the cooperative partner's sophistication (i.e. accounting systems and monitoring staff). In each cooperative agreement examined, District monitoring efforts were appropriate to ensure contractual compliance.

Our observations revealed that larger entities often have monitoring infrastructure in place, which establishes a sound control environment. These larger cooperative partners have a procurement process, a job costing system that captures project related expenditures into a single account, an expenditure approval system, and professional staff to monitor the projects.

In contrast, smaller entities usually don't have these systems and processes. They don't have a procurement system to solicit bids or a sophisticated accounting system to record project costs. In lieu of a solicitation, smaller entities often availed themselves of other local government solicitations that were for similar type projects. They also may rely on outside professionals to perform project monitoring. Nevertheless, these limitations do not necessarily indicate control weaknesses that would warrant additional concern. Risk is usually mitigated to an acceptable level when District payments are made after the project or a project phase is completed. Routinely, District monitoring staff conducts site inspections and final approval of deliverables before the District's cost-sharing commitment is remitted.

Our contract selection included cooperative agreements with small municipalities. In one particular project, the cooperative partner's project management turned over three times, which created a difficult situation for the District's project manager to monitor the agreement. The city finally turned to a lessee of a marina to manage the project. Our review of the project documentation and site inspection indicated that the project was completed in accordance with contractual terms and conditions. The District's project manager also was diligent in overseeing the work under difficult circumstances.

In the majority of cooperative agreements reviewed, District cooperative contributions were made on a completed project or phase basis. District remittances for Alternative Water Supply cooperative agreements are contingent on completion of the entire project or a distinct project phase. For other agreements, District payments were based on receipt of contractual agreed upon deliverables.

Ensure Cooperative Partners Properly Segregate Advanced Funds

For small local governments with cash flow shortfalls, designated as Rural Economic Development Initiative communities, the District can advance funds to get projects underlying the cooperative agreement started. These circumstances are rare but, when they do occur, the District's risk is increased. In order to mitigate this risk to an acceptable level it may be necessary to recognize this internal control shortfall and establish closer monitoring procedures to ensure funds are spent appropriately.

Recommendations

- 1. Ensure that advanced funds for a cooperative agreement are properly designated by the cooperative partner and cannot be spent for other purposes.**

Management Response: The Deputy Executive Director for Corporate Resources has established and charged a Cross-Departmental Team to review and make recommendations regarding the cooperative agreement/local contracts process. The Team's principal goal is the reduction of year-to-year rollover of budgeted/encumbered funds. A copy of this audit report will be given to the Team, and they will be asked to make recommendations addressing each audit issue. Upon completion of the Team's work, a copy of the final Team recommendations will be forwarded to the Inspector General.

Responsible Department: Corporate Resources
Government and Public Affairs

Estimated Completion Date: June 1, 2005

- 2. Develop monitoring procedures that require frequent remittance of progress reports for advance funding of cooperative agreements. In addition, monitoring staff should conduct regular site inspections to verify reported progress and to ensure funds are spent appropriately.**

Management Response: The Deputy Executive Director for Corporate Resources has established and charged a Cross-Departmental Team to review and make recommendations regarding the cooperative agreement/local contracts process. The Team's principal goal is the reduction of year-to-year rollover of budgeted/encumbered funds. A copy of this audit report will be given to the Team, and they will be asked to make recommendations addressing each audit issue. Upon completion of the Team's work, a copy of the final Team recommendations will be forwarded to the Inspector General.

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Government and Public Affairs

Estimated Completion Date: June 1, 2005

Obtain Commitments from Cooperative Partners to Conduct Follow-up Activities

Our selection included a cooperative agreement between the District and a county for vegetation management of tributaries leading to a major waterway. The total value of the agreement was \$450,000 of which the county is contributing \$5,000 for in-kind services. The purpose of the agreement is to improve conveyance and clear tributaries and canals of debris, fallen trees and low hanging branches that restrict water flow.

The cooperative partner did not complete the work but availed themselves of another county's vegetation management contract. Although competition is usually the best source for determining value, District vegetation management experts reviewed the agreement's scope of work, the herbicide application rates, and exotic vegetation removal. They concluded that the contractor's costs were within a reasonable range. As of the date of our site visit, the county had spent approximately \$50,000 of the agreement total for contractually approved project sites. We reviewed the cancelled checks to the vendor, noting no exceptions.

Our observations indicated that the contractor was doing a thorough job of exotic vegetation eradication. While at a job site, we had an opportunity to talk with a landowner, whose property was adjacent to one of the canals earmarked for cleaning. He stated that the contractor had done an excellent job in clearing the vegetation from the canal banks.

The County's project manager stated that the District's contribution is very important and they would probably not be in a financial position to do the work without District assistance. However, an essential component of vegetation management is follow-up applications. An effective vegetation management program requires consistent periodic reapplication although the agreement total does not contemplate follow-up applications. Based on the county project manager, future funding for reapplication may be questionable.

Short-term solutions to long-term problems may not have the intended effect over the long-run unless efforts are made to follow-up. Generally, timely vegetation

management follow-up treatments cost significantly less than the initial eradication efforts.

Recommendation

- 3. For projects requiring additional follow-up, the District should obtain a commitment from the cooperative partner to fund necessary follow-up activities.**

Management Response: The Deputy Executive Director for Corporate Resources has established and charged a Cross-Departmental Team to review and make recommendations regarding the cooperative agreement/local contracts process. The Team's principal goal is the reduction of year-to-year rollover of budgeted/encumbered funds. A copy of this audit report will be given to the Team, and they will be asked to make recommendations addressing each audit issue. Upon completion of the Team's work, a copy of the final Team recommendations will be forwarded to the Inspector General.

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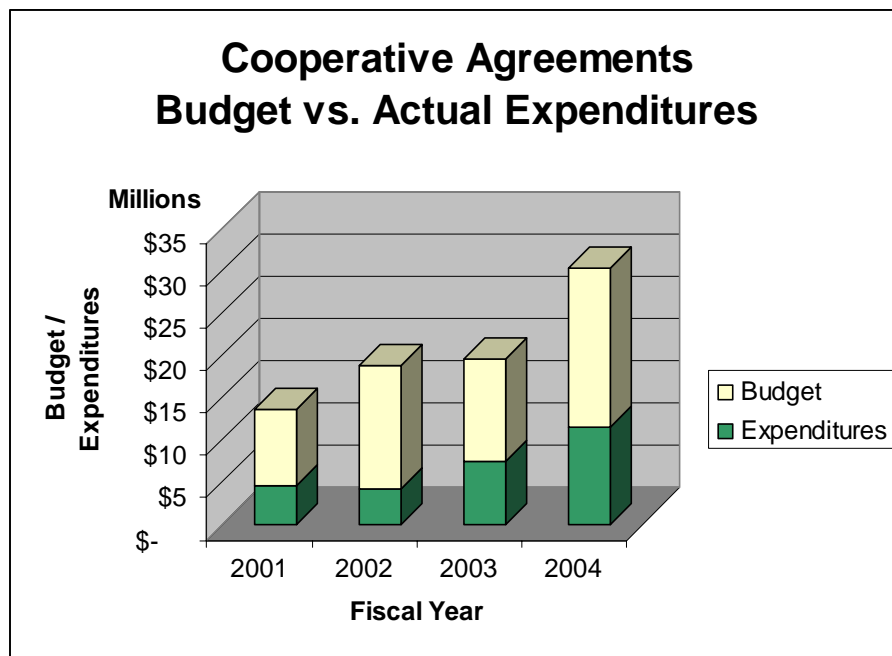
Estimated Completion Date: June 1, 2005

Cooperative Agreement Delays

Our review of the cooperative agreement listing of active contracts, as of October 13, 2003, indicates that projects underlying 18 of the 256 cooperative agreements should have been completed by February 28, 2005 but had not yet started. No funds had been disbursed yet for these 18 agreements. The total value of these 18 agreements is \$2.2 million, which represents approximately 14% of the total value of District active cooperative agreements. On average, the projects underlying these agreements were 2.3 years past the project start date and a few projects were over four years behind schedule.

Project delays are sometimes unavoidable and beyond the control of the District or its cooperative partner. For example, unforeseen permit issues arise and delay the start of a project. However, as a rule, cooperative agreements often run behind schedule. To mitigate the risks associated with project delays, the District should perform its due diligence to be reasonably confident that the underlying project can be started and completed in accordance with the agreement timeline.

Cooperative agreements compete for District resources during the budget process. Based on an analysis the Budget Division prepared, an average of only 34% of the funds budgeted for cooperative agreements were expended over the last four fiscal years as illustrated in the following graph.



The District's intent when entering into a cooperative agreement with a local government or not-for-profit is to contribute to the cost of a mutually beneficial project. It also is presumed that the project will start and finish in accordance with an expected timeline. In hindsight, budget requests for worthwhile projects that were denied because of District funding resource limitations could have been funded in place of these projects.

In addition, these agreements are carried on the District's contract management and accounting systems. Even though there is no activity for some agreements, the agreement funds have to be encumbered in the initial year and then re-encumbered annually to ensure that the funds remain available when the projects is ready.

Recommendation

- 4. District staff should conduct its due diligence to be reasonably certain that the projects underlying the cooperative agreements will be started and completed within the agreement's deliverable schedule.**

Management Response: The Deputy Executive Director for Corporate Resources has established and charged a Cross-Departmental Team to review and make recommendations regarding the cooperative agreement/local contracts process. The Team's principal goal is the reduction of year-to-year rollover of budgeted/encumbered funds. A copy of this audit report will be given to the Team, and they will be asked to make recommendations addressing each audit issue. Upon completion of the Team's work, a copy of the final Team recommendations will be forwarded to the Inspector General.

Responsible Department: Corporate Resources
Government and Public Affairs

Estimated Completion Date: June 1, 2005

Summary of Contract Compliance

Organization	Controls appear adequate to ensure contract compliance	Evidence of monitoring by municipality	Evidence of monitoring by District	Expenditures appear appropriate and project related	Site inspection indicates work is progressing or completed in accordance with contract	Compliance with contractual terms and conditions
City of Miami Springs Stormwater System Improvement	Yes. Contracting process and payment approval process appears adequate.	Yes. City maintained a log and outside project engineer approved contractor invoices.	Yes. District Project Manager reviews contract documents sent by municipality. Project Manager went to construction site.	Yes. Reviewed estimates provided by construction contractor. Estimates are project related. Reviewed progress approvals by project engineer. Invoices appear project related.	Yes. I went with City official on site visit. Site inspection indicated evidence of construction.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
Town of Jupiter Jones Creek Restoration	Yes. Controls over payment approval process appears adequate to ensure project is completed.	Yes. The Town maintained a field inspection log on site inspections.	Yes. District Project Managers had been to the site.	Yes. Invoice package comprehensive. Our review indicates that expenditures were related to project.	Yes. I went with City official on project site visit. Site inspection indicated obvious sign of construction work. Project is almost completed.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
Phosphorus Dosing Study Florida International University (FIU)	Yes. FIU maintains a job costing system requiring expenditure and payroll approvals	Yes. Records indicate that FIU monitors progress. FIU has job costing system that applies costs to appropriate project.	Yes. Deliverables are reviewed and approved by District Project Manager before payment is made.	Yes. Reviewed on a sample basis FIU project expenditures. They appear project related.	Yes. Payment to FIU were based on approval of research deliverables.	Yes. Appears that FIU complied with contractual terms and conditions.
Dredging Project Pahokee Harbor City of Pahokee	Substantive testing of expenditures provided a level of comfort that expenditures were appropriate.	Yes. Contract was monitored by an outside marina operator but payments were approved by City official.	Yes. District Project Manager went to the job site a number of times.	Yes. Expenditures were for survey and dredging costs.	Yes. I accompanied the City of Pahokee Project Manager and conducted numerous marina depth tests to ensure work was in accordance with final survey.	Yes. All project costs related to survey and dredging.
St. Lucie Oyster Bed Restoration with Florida Atlantic University (FAU)	Yes. FAU maintains a job costing system requiring expenditure and payroll approvals.	Yes. Noted payroll and expenditure approvals.	Yes. District Project Manager communicates with FAU technician weekly on project progress.	Yes. Noted payroll and expenditure appeared appropriate and project related. Personnel costs were for staff assigned to the project.	Yes. I went to site and observed oyster experimental infrastructure.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
Mote Marine Research in Charlotte Harbor	Yes. Maintains a job costing system requiring expenditure and payroll approvals.	Yes. Noted supervisory payroll and expenditure approvals.	Yes. District Project Manager and Supervisor reviewed deliverables report.	Yes. Reviewed Mote Marine project expenditures on a sample basis. They appear project related.	N/A research contract. District Project Manager reviews reports and approves deliverables.	Yes. Review of deliverables by project manager and supervisor indicate that contractual terms are being met.
Environmental Restoration of Caloosahatchee Tributaries	Substantive testing of expenditures provided a level of comfort that expenditures were appropriate.	Yes. Hendry County Engineer knew the project work site.	District personnel were at the work site.	Yes. Expenditures were for vegetation management costs.	Yes. Work is progressing in accordance with contract.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.

Summary of Contract Compliance

Organization	Controls appear adequate to ensure contract compliance	Evidence of monitoring by municipality	Evidence of monitoring by District	Expenditures appear appropriate and project related	Site inspection indicates work is progressing or completed in accordance with contract	Compliance with contractual terms and conditions
Lake Okeechobee Habitat Restoration Belle Glade	Contracting process and payment approval process appears adequate.	Yes. Evidence of extensive invoice review by accounting and finance staff and Belle Glade Project Manager.	Yes. Periodic inspection by District Project Manager.	Yes. Reviewed invoices. Expenditures appear project related.	Yes. Site visit indicates work is progressing in accordance with contract.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
Watershed Planning with Miami Derm	Miami-Derm has an internal control infrastructure in place that requires invoice review and approval by Miami-Derm management and Finance. Miami-Derm has a job costing system that records internal staff charged to project that requires supervisory approval	I reviewed memos summarizing meetings with contractors and other documentation indicating that Miami-Derm staff monitored progress.	District Project Manager reviewed project progress reports.	Yes. A detailed review of the invoice package sent to District indicates that expenditures were project related. Deliverables were organized.	N/A. Planning Project	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
Ten Mile Canal Filter Marsh	Substantive testing of expenditures provided a level of comfort that expenditures were appropriate.	Yes. Lee County has competent staff. Deliverables reviewed.	District Project Manager approved deliverables. For a multi-discipline project like this, the District has staff with the appropriate expertise to review the deliverables.	Payment was in accordance with contract deliverables schedule.	Did not visit site.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
City of West Palm Beach M-Canal Widening	Substantive testing of expenditures provided a level of comfort that expenditures were appropriate.	Yes. City of West Palm Beach has competent staff. Deliverables reviewed.	Project Manager has been to the site a few times.	Payment was in accordance with contract deliverables schedule.	Did not visit site.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.
Master Planning with the City of Marathon	Substantive testing of expenditures provided a level of comfort that expenditures were appropriate.	Minutes of Committee meeting and other meeting indicate that Cost-sharing partner monitored progress.	District Project Manager reviewed project progress reports but should not have made final payment until plan was complete	Yes. Invoice package sent with invoice to District indicate substantial city payments to contractors.	Did not visit site.	Based on audit work completed it appears that the cost sharing partner complied with material aspects of contractual terms and conditions. However, District Project Manager approved final payment before reviewing final deliverable.
Office and Lab Space at Gumbo Limbo with FAU	Yes.	N/A. Cost-share is a lease reduction	N/A	Yes. Expenditures related to lease payments	Yes. District space is in accordance with floor plan contained in the lease agreement.	Yes. Based on audit work completed it appears that the cost sharing partner complied with the contractual terms and conditions.