



## **Audit of City of Everglades City Grant Agreement**

**Project # 14-08**

**Prepared by**  
Office of the Inspector General

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



# SOUTH FLORIDA WATER MANAGEMENT DISTRICT

June 12, 2014

Audit and Finance Committee Members:

Mr. Jim Moran, Chair  
Mr. Glenn Waldman, Member  
Mr. Juan Portuondo, Member

Re: Audit of the City of Everglades City  
Grant Agreement  
*Project No. 14-08*

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. Our objective focused on determining whether Phase II expenditures charged to the grant agreement by the City of Everglades City were appropriate and in accordance with the terms of the agreement. Dan Sooker and I prepared this report.

Sincerely,

A handwritten signature in blue ink that reads "J. Timothy Beirnes".

J. Timothy Beirnes, CPA  
Inspector General

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## **BACKGROUND**

At management's request, our Office conducted an Audit of the City of Everglades City (Everglades City) Grant Agreement #4600002782. The District entered into the grant agreement for \$750,000 with Everglades City on January 25, 2013, to cost share in Phase II of a Water Supply System Improvement Project. Through April 10, 2014, the District has disbursed \$339,450 to Everglades City for Phase II construction in two payments: the first payment for \$34,450 was dated March 14, 2013, and the second payment for \$305,000 was dated June 27, 2013. Everglades City also received a commitment of \$2.3 million from the Florida Department of Environmental Protection (FDEP) for the Phase II portion of the project. Combined with the District's \$750,000 contribution, the total Phase II project funding is estimated to be approximately \$3.05 million.

The purpose of the project is to improve Everglades City's water supply system and bring it into compliance with certain existing regulations. Further, improvements to the existing water supply wells were necessary to provide protection against microbial contamination. As a result of these concerns, Everglades City initiated a project to bring its system into compliance and upgrade its water supply system in two phases. Phase I consisted of planning and constructing two well pumps and connecting the new wells at the existing water treatment plant. Phase II primarily involves the design and construction of a new filtration membrane system and a concentrate disposal pipeline to Everglades City wastewater collection system. Phase I has been completed and Phase II of the project is in process. Based on our review of various documents provided by Everglades City, Phase II tasks including design and pipeline construction have started.

District management found that the documentation provided by Everglades City for its Phase II design and construction activities only supported approximately \$80,000 of expenditures. Moreover, more than half of these payments were made to a former District employee who had been the director of the Big Cypress Basin Service Center at the time the agreement was executed. Management found these payments unusual and questioned whether these services were within the agreement's scope of work. It should also be noted that the District's original project manager assigned responsibility for overseeing project expenditures was involuntarily separated from the District subsequent to execution of the grant agreement.

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According to the agreement's construction schedule, the District funded portion of Phase II construction should have been completed by October 2013; however, Phase II financial records provided by Everglades City indicated that major tasks remain unfinished. In addition, the timeframe to complete the District funded construction has expired; therefore, before extending the agreement, District management requested an audit and a full accounting of all Phase II construction costs. Thus, our Office invoked the audit rights in accordance with the agreement. The agreement's audit rights are contained in paragraph 16, subsection B, *Examination of Records*, which states that Everglades City shall maintain records and the District shall have inspection and audit rights as follows:

- 16.B Examination of Records: The District or its designated agent shall have the right to examine in accordance with generally accepted governmental auditing standards all records directly or indirectly related to this agreement....

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## **OBJECTIVE, SCOPE AND METHODOLOGY**

Our objective was to determine the amount of expenditures Everglades City incurred towards the Phase II project and whether such expenditures were appropriate and in accordance with the terms of the grant agreement. We also determine the nature of the disbursements made to the former District employee and assessed whether these payments were proper and demonstrated valid project expenditures. To accomplish our objectives, we performed the following procedures:

- Requested an accounting of all expenditures charged to the agreement.
- Requested Everglades City to provide supporting documentation for payments charged to the agreement.
- Traced payments to contractor agreements, Everglades City's financial records and bank statements.
- Conducted site visits.
- Interviewed Everglades City's project manager.

We conducted this financial 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**

We found that Everglades City recorded Phase II expenditures along with other costs that were incurred for its water supply system in its Utility Account. Our analysis of Utility Account activities and various accounting records through February 2014 revealed that of the \$340,754 recorded in this account, \$290,736 were incurred for Phase II design and related costs, and \$50,018 were for improvements to Everglades City's water supply system that were outside of the District's Phase II Grant Agreement's scope of work.

We found that the former District employee was hired by Everglades City as a consultant and provided project oversight assistance; which included contractor invoice review, permit acquisition, and design and construction oversight. In our opinion, these oversight services proved to strengthen Everglades City's review process over project expenditures; however, our analysis revealed that \$14,950 of the \$41,850 billed was for services provided that were not within the District's Grant Agreement scope of work. We also found that \$21,559 of the Project Engineer time was spent securing an FDEP grant and working on Phase 1 project tasks, which were unrelated to the Phase II Grant Agreement scope of work. Everglades City's Accountant also identified costs totaling \$13,509 that were also unrelated to Phase II. These costs are included in the \$50,018 of water supply system expenditures that are outside the District grant agreement scope of work.

We discussed our findings with the Everglades City Mayor and Accountant on April 23, 2014. They agreed with our finding and Everglades City will make the appropriate adjustments to the Phase II project cost records.

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## Analysis of Phase II Expenditures

Everglades City is a small city located at the southern tip of Collier County in the District's Big Cypress Basin. Everglades City is governed by an elected Mayor and a five-member City Council. The City's staff consists of six full-time and two part-time employees.

On March 11, 2013, we met with the Mayor and Accountant of Everglades City and the Project Engineer, to review the financial records that supported Phase II expenditures and conduct a project site visit. Prior to our meeting, we requested that Everglades City provide all documentation related to Phase II expenditures including invoices, contractor agreements, cancelled checks, project cost reports and any other support deemed necessary to substantiate Everglades City's design and construction costs.

The financial records provided by Everglades City revealed that Phase II and other water supply expenditures totaled \$340,754 through February 2014. The Phase II expenditures were recorded in Everglades City's Utility Account along with other costs that were incurred for its water supply system. We analyzed the supporting documentation provided by Everglades City, which included contractor invoices, time reports and bank statements to determine the costs that were attributable to Phase II. Our analysis is summarized in the following table, which segregates the expenditures between allowable Phase II costs and water supply system costs that are not Phase II related.

<b>Everglades City Phase II Expenditures</b>	
<b>Allowable Phase II Costs</b>	<b>Amount</b>
Design and Related Costs	\$ 154,916
Services During Construction	44,156
Mitigation	34,450
Bidding	12,591
Permitting	16,811
Other Costs	27,812
<b>Total Allowable Phase II Costs</b>	<b>\$290,736</b>
<b>Disallowed Water Supply System Costs</b>	
FDEP Grant	\$19,135
Phase I Related Costs	2,424
Consultant Payments	14,950
Other Costs	13,509
<b>Total Disallowed Water Supply System Costs</b>	<b>\$50,018</b>
<b>Total Costs</b>	<b>\$340,754</b>



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We found that of the \$340,754 recorded in Everglades City's Utility Account, \$290,736 was for Phase II design and construction expenditures. These costs were supported by invoices, contracts, contractor time reports or other documentation; however, we also found that \$50,018 was recorded in the Utility Account for water supply system expenditures that was not related to the Phase II project scope of work.

Everglades City engaged the engineering firm of AEC Water primarily for project design, project permitting and construction oversight services. In total, AEC Water invoiced Everglades City \$183,333 through February 2014 for the aforementioned services. Our analysis of the AEC Water time reports revealed that the rates charged appeared fair and reasonable. We found that the Project Engineer, a principal in AEC Water, adjusted his hourly billing rate depending on the complexity of the engineering task. The Project Engineer reduced his hourly rate for work done on tasks that were appropriate for a less experienced engineer.

AEC Water also provided oversight services for the competitive Phase II contractor selection process. Our review of various procurement documents indicated that Everglades City evaluated four contractors for Phase II construction and awarded the contract to DN Higgins for \$2.45 million, the lowest responsive and responsible bidder.

Our analysis of time reports prepared by AEC Water professionals revealed that \$19,135 was for hours spent assisting Everglades City in securing the grant from FDEP for the Phase II project. While hours incurred on grant acquisition appeared to be beneficial to Everglades City, the expenditure for these services does not conform to the District Grant Agreement's scope of work. We also found time charged for Phase I tasks totaling \$2,424, which were outside the scope of the grant agreement.

Everglades City hired and paid the former District employee a total of \$41,850 for services rendered during the period October 7, 2012 through November 6, 2013, which is the approximate Phase II design time frame. The former District employee was paid a rate of \$50 per hour and usually worked 16 hours weekly during the period for a total of 837 hours. According to the former District employee, Everglades City's Mayor requested him to provide oversight assistance, which included contractor invoice review, permit acquisition, and design and construction oversight. We found that this oversight proved to strengthen Everglades City's review process over project expenditures. However, our review of his time reports revealed that of the \$41,850 paid to him, \$26,900 was directly related to work performed on Phase II tasks but

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services costing \$14,950 were for time recorded for the FDEP grant, Phase 1 and other services unrelated to the Phase II project.

Other costs of \$13,509 primarily consist of payments to FDEP and a contractor that Everglades City's Accountant identified as unrelated to Phase II.

Our audit procedures also entailed visiting the Phase 1 and Phase II work sites with the Project Engineer. We found that the Project Engineer was very knowledgeable of the work that was performed. At the Phase 1 site, we noted that installation of the two wells appeared complete. According to the Project Engineer, Phase II design and installation of the concentrate line was 90% complete. We observed the underground concentrate pipe line installation site and materials stored at the water treatment plant.



**Underground concentrate piping between water plant and wastewater treatment plant. Observed March 19, 2014.**