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# SOUTH FLORIDA WATER MANAGEMENT DISTRICT



## Office of Inspector General Annual Report

Fiscal Year 2000

Allen Vann, Inspector General  
Doris DeMaio, Senior Administrative Resource Associate



## **SOUTH FLORIDA WATER MANAGEMENT DISTRICT**

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MGT 08-06F

October 2, 2000

### Governing Board Members:

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

Re: Annual Report for  
Fiscal Year 2000

In accordance with the Audit Committee Charter and the Inspector General Act (Chapter 20.0.005(7) F.S.), I am pleased to submit the Office of Inspector General's Annual Report for Fiscal Year 2000. This report was prepared by Doris DeMaio. It summarizes the audits performed, as well as other projects and activities accomplished, during the year.

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

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

Sincerely,

Allen Vann  
Inspector General

AV/dmd

c: Frank Finch

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#### GOVERNING BOARD

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

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

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

#### EXECUTIVE OFFICE

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

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## INTRODUCTION

In accordance with the Inspector General Act of 1994, Chapter 20.055(7) F.S., this report summarizes the activities of the South Florida Water Management District's (the "District") Office of Inspector General (the "OIG") for the fiscal year ended September 30, 2000.

The OIG serves as an independent appraisal unit within the District to examine and evaluate its activities. The Inspector General reports directly to the District's Governing Board (the "Board"), through the Board's Audit Committee appointed by the Chairman of the Board. The Audit Committee operates under an Audit Committee Charter established by the Board.

The Internal Audit Charter adopted by the Governing Board & Executive Director establishes an internal audit function within the OIG to provide a central point for coordination of activities that promote accountability, integrity, and efficiency in the operations of the District. The OIG is accorded unrestricted access to District facilities, records, and documents and is not limited as to the scope of work.

The duties and responsibilities of the Inspector General, as defined by Chapter 20.055, F.S. include:

- advising in the development of performance measures,
- assessing the validity and reliability of performance measures,
- reviewing action taken by the District to improve performance,
- conducting, supervising or coordinating other activities to promote economy and efficiency,
- preventing and detecting fraud and abuse,
- coordinating with other auditors to avoid duplication, and
- ensuring that an appropriate balance is maintained between audits, investigations, and other accountability activities.

Under Chapters 112.3187 through 112.31895 and Chapter 20.055, F.S., the OIG is also responsible for investigating Whistle-Blower Act complaints brought by District employees, ex-employees, agents, or contractors.

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## **STAFF**

The OIG consists of seven professionals: an Inspector General, four Lead Consulting Auditors, one Lead Information Systems Auditor, and one Senior Administrative Resource Associate. The Inspector General and all Lead Consulting Auditors maintain active Certified Public Accountant licenses. Our Lead Information Systems Auditor is a Certified Information Systems Auditor.

Staff professional affiliations are as follows:

- Association of Inspectors General
- American Institute of Certified Public Accountants
- Florida Institute of Certified Public Accountants
- Institute of Internal Auditors
- Government Finance Officers Association
- National Association of Local Government Auditors
- Association of Certified Fraud Examiners
- Institute of Management Accountants
- Information Systems Audit and Control Association

## **CONTINUING PROFESSIONAL EDUCATION AND TRAINING**

In order for our office to comply with the General Accounting Office's Government Auditing Standards and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, the Inspector General ensures that mandatory training requirements are satisfied for the entire OIG staff. The goal of the program is to cost effectively increase professional knowledge and proficiency, and ensure that staff meets continuing professional education requirements.

During FY 00 the staff received training in such topics as:

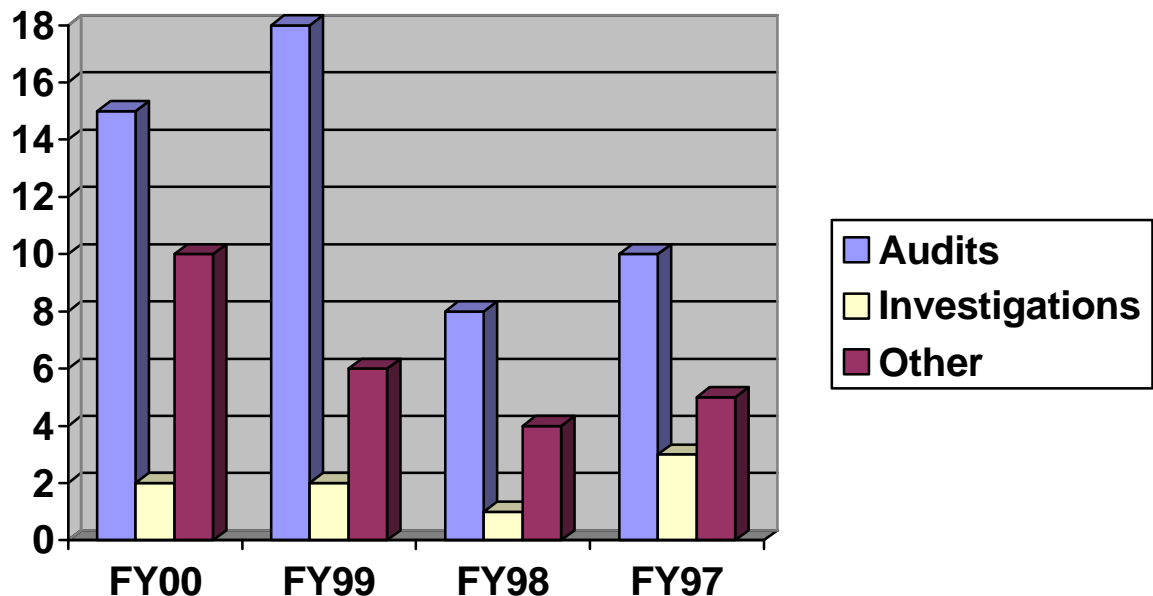
- Information Systems Audit
- Information Systems Technology
- Government Audit Standards
- Government Accountability
- Fraud: Arts & Sciences
- Risk Assessment
- Environmental Auditing
- Quick Response Auditing

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## INSPECTOR GENERAL ACTIVITIES

The Inspector General prepares an annual audit plan that lists the audits and other activities that will be undertaken during the ensuing fiscal year. The Inspector General relies on a risk assessment, long range audit plan, analysis of financial information, and input from the Audit Committee and District management, to aid in the development of this plan. The OIG continues to identify those programs that pose the greatest challenge to the District, to assist in prioritizing audits, and to ensure the most effective use of audit resources. The Inspector General also considers the statutory responsibility to advise in the development of performance measurements, standards, and procedures in assessing District program risks.

Overall, the number of work products prepared in FY 00 has varied compared to the three previous fiscal years as illustrated in the following graph:



All audits, unless otherwise noted in the report, are conducted in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States, commonly referred to as the Yellow Book, and with Standards for The Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, Inc.

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## **AUDITS**

The Inspector General's Office issued 15 audit work products during FY00. These included 9 performance audits. Performance audits include comments on economy & efficiency, program compliance, and results. We also performed 6 financial audits. A summary of each report, by category, follows:

### **Performance Audits:**

#### **Interim Study of the Span of Control Audit #99-28**

This study was performed in order to provide baseline information about District organization structure and to advise new management on current practices. Overall, we found that the District span of control is much lower than the benchmarks and practices reported in management literature, and the layers of management and supervision are higher than recommended. The District has not set targets for span of control and there is wide variation within departments. We did not attempt to determine the reasons for the District's low ratios, but we did identify 14 factors that influence span of control. Based upon our findings we made 6 recommendations. Management agreed to implement the six recommendations contained in our report. Subsequent to our report, management reorganized the District and has reported significant improvements in span of control and layers of management. We will perform a follow-up audit in FY 2001.

#### **Audit of the Procurement Process Redesign Audit #99-12**

The audit focused on assessing the implementation of the redesigned procurement process as recommended in the "Procurement System Team – Financial Report" and reporting any improvements in efficiency and/or effectiveness of the redesign effort. The implementation of the recommendations contained in the redesign report has had a positive impact on the procurement process. This audit addresses each of the recommendations and attempts to build upon these opportunities for improvement.



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**Audit of the Computer Support  
Services Work Order Contracts  
Audit #99-26**

This audit focused on ensuring that the work order process for computer services is being followed in line with the approval of the Governing Board and is being used as presented with adequate controls over vendor activities and costs. In January 1998 the Governing Board approved 35 Work Order Contracts for the time period of January 11, 1998 through September 30, 2000 in an amount not to exceed \$4.8 million. This audit was performed pursuant to a request from the District's former Chief Information Officer. We found that although the process has been quite effective in delivering Information Technology resources and expertise, it is being overused. Notwithstanding, of the thirty-five pre-qualified vendors selected for computer support services, only twenty-one received work. The overall controls are adequate, but record keeping needs improvement. There are opportunities to improve the process with respect to selection of vendors, cost control, and record keeping. Based upon our finding, we made nine recommendations in our report. Management concurred and committed to implement our recommendations.

**Audit of the Permitting  
of District Works  
Audit #99-27**

This audit was performed to assure that a system of controls is in place to provide assurance that the District is obtaining required permits to construct and operate infrastructures, comply with terms and conditions thereof, and is renewing permits on a timely basis. Our testing discovered instances of non-compliance that were corrected. We also found that standardizing the permit process and centralizing the reporting could prove beneficial for tracking permit compliance. The audit takes a forward looking approach to permitting major projects and draws a parallel to the Everglades Construction Project where consolidation of require permits has worked well. We also recommended consolidating permit reporting, where possible.

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**Review of Water Quality  
Monitoring Programs  
Audit #00-03**

The review focused on determining whether there were opportunities to decrease the scope of water quality programs. The District's water quality monitoring program includes efforts to obtain quantitative information on the physical, chemical, and biological characteristics of various water bodies. Our review of five water quality monitoring programs disclosed that program justification was not adequately documented; there wasn't a mechanism in place to track the costs associated with specific monitoring programs; and water quality monitoring data is not regularly analyzed. For one program, there was no sponsor or customer for the data. Four recommendations for improvement were made, one of which has already been implemented.

**Audit of the Environmental  
Resource Compliance Program  
Audit #99-09**

The audit focused on the District's process for inspecting and enforcing compliance with environmental and surface water management conditions contained in District issued permits. Our testing determined that (regulatory permit) compliance activities are handled consistently throughout the District at the various Service Centers. However, inequities exist in Service Center workloads. Also, the Environmental Resource Compliance Department could improve its documentation of how field inspection issues are resolved. Internal controls could be strengthened by requiring supervisors to perform some independent observations of field inspections. The Division should consider a permit criteria requiring the operating permittor to perform an annual inspection and maintenance/repair of the surface water management system. Management concurred with all recommendations.

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**Follow-up of the Everglades  
Construction Project  
Design and Construction  
Management Cost Issues  
Report #00-14**

This report presents our evaluation of the progress made in controlling Everglades Construction Project (ECP) engineering cost subsequent to issuing our previous report: *Audit of the Everglades Construction Project Procurement Process #97-15*, dated June 3, 1998.

We reported that the Everglades Construction Project Office has made significant progress in controlling engineering costs. In our previous audit, we evaluated the reasonableness of ECP engineering costs using various benchmarks. Currently, approximately \$194 million worth of contracts have been awarded for design, construction management and actual construction. Current projections for both detail design and construction management cost are much closer to benchmarks we used in our previous audit. The difference in dollars spent (or estimated to be spent) on design and construction management is only 5% over the benchmark set by the original Conceptual Design Document as compared to 25% over that benchmark in our previous audit. Achieving the current projections for the entire project relies largely on achieving the favorable projections for STA 3/4, which are currently below the benchmark. ECP should continue pursuing opportunities for controlling construction management costs in line with the recommendations we made in our prior report.

**Audit of the Mitigation  
Banking Program  
Audit #99-18**

This report details the results of our audit of the South Florida Water Management District's two mitigation banking contracts. Our review of the contracts and contract negotiation process disclosed that the procurement team emphasized District revenue maximization and timing. However, the contracts could have been structured to provide the District with more control over the contractors' costs. The contracts use a cost reimbursement type structure without providing for sufficient fiscal control over the contractors. A project budget was not established to limit the contractors' costs, while the District is

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capped on cost recovery. Prior to contract negotiations, a detailed independent cost estimate for each bank was not prepared. Furthermore, overhead rates for the contracts were not negotiated, which has resulted in a disparity in the overhead rate being charged by each contractor. The District entered into the two entrepreneurial banking contracts that presented the advantage of sharing risks and rewards and having a contractor design and construct the bank. However, management should consider developing and operating any future mitigation bank without a contractual partner. This could provide more revenue to the District for future land acquisitions and restorations.

Apart from these two mitigation banks, we found three permits approved by the District for private mitigation banks whose service areas are based upon political sub-divisions. Effective July 1, 1996, mitigation services areas should be defined by regional watersheds and ecological factors as outlined in Florida Statute.

**Emergency Management:  
Hurricane Freddy Exercise  
After-Action Review  
Report #00-13**

The Hurricane Freddy Exercise was well planned and received good support from the executive management team and enthusiastic participation from the staff. However, the exercise included an abnormally high number of incidents and messages, which quickly overwhelmed the system. Our review of the messages entered into the system during the exercise, noted numerous instances of incomplete fields and/or missing data in individual records. Of the 135 messages recorded in the system during the exercise, we found only eight that were marked "complete." We have offered recommendations towards improving the performance of the system and also made several recommendations to improve backup and redundant communications.

During an actual emergency activation information flows into the EOC at a slower pace and is more manageable. We would extend the exercise to two days and reduce the number of participants in the EOC at any one time. For regular EOC operations we identified the need to appoint team leaders, fine tune staffing assignments, and hold staff more accountable for their EOC responsibilities through formal

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inclusion in their annual job evaluations. There is also the need for more equipment and specialized training. Good training courses have been developed, but closer monitoring by the Office of Emergency Management would ensure that people are receiving the right kind (and amount) of training.

Our review of the District's interaction with outside agencies highlighted the need for additional planning with the Corps of Engineers to resolve differences in operating procedures. Reaction time to simulated field conditions was inadequate. In addition, communications with the Section 298 Districts were poor and highlighted the need to revisit those practices.

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## Financial Audits:

### **Audit of Cash Management Audit #00-05**

The audit focused on assessing compliance with the District's investment policy and state statutes, reviewing internal controls over cash receipts and disbursement, and evaluating effectiveness of cash flow management. Our audit encompassed the period from October 1, 1998 to September 30, 1999, which included nearly \$174 million in investment transactions. *Cash and Investments* reflected in the fiscal year end certified annual financial statement was \$268 million. We found that all investment made by the Treasurer were in accordance with the District's investment policy. Cash and investments were properly recorded in the accounting system and internal controls were generally found to be adequate.

County tax collectors and property appraisers charged commissions in accordance with the state statute. However, while commissions are deducted from each tax remittance, a refund is typically made, as required by Florida Statute, to the District to adjust to the Collectors' actual cost. Our examination disclosed that, Broward County's finance department has never remitted any excess fee refunds to the District. As a result, the District's cost for collecting property taxes from Broward county residents is 64% higher than in Miami-Dade County and 47% higher than in Palm Beach County. Based on our estimate the District may be entitled to receive an annual refund from Broward County of up to \$520,000. The potential recovery of refunds for the last four years might be as much as \$1.8 million. We recommended that the District's financial staff obtain an accounting from Broward County on their tax collection activities and any applicable refund that may be due.

### **Indian River Lagoon Specialty Tag Fund Audit #00-10**

This annual certified financial report is required for funds received & expended in the Indian River Lagoon Fund. During FY99 fund revenues were \$202,138 and expenditures totaled \$107,151 for restoration and environmental education. The revenues in excess of expenditures along with a large beginning of the year fund balance,

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resulted in a year end fund balance of \$317,687. We provided a copy of our report to the Florida Department of Highway Safety & Motor Vehicles. We reported that fund expenditures were made for restoration and environmental education in compliance with the State Statute.

**Audit of Minority/Women Business  
Enterprise (M/WBE) Program  
Audit #00-06**

Pursuant to Section 40E-7.623, the District is required to prepare an annual report summarizing M/WBE activities by industry classification. The Office of Inspector General certified the accuracy of statistical data presented in this report. In FY99 the District spent \$101 million for contracts and commodities. Of this amount, \$13 million (13%) was spent with M/WBE firms.

**Review of Change Order #4  
Submitted by Harry Pepper & Associates  
Contract No. C-E204  
Audit #99-21**

We verified selected salary and equipment cost proposed by the Contractor pursuant to a change order for construction of Pump Stations G-310 and G-335. The Change Order request was in the amount of \$903,400. We found that the contractor's records supported the rates charged in the change order.

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**Audit of Pricing Proposals & Costs Submitted by  
Prescott/Follett & Associates, Inc./Brown & Caldwell  
for Amendments 4 & 5, Pumping Stations G-310 & G-335  
Procurement Support Services & Construction Support  
Services Under Contract No. C-E200  
Audit #99-23**

At the request of management we audited \$1,013,368 in additional charges to the subject contract. The objectives of the audit were to determine if the Consultant charged the District for services in accordance with the negotiated hourly rates and also to determine that the Consultant's accounting records support the hours billed. We were able to substantiate all charges with the exception of \$2,190.

**Review of the Prescott/Follett  
Brown & Caldwell Claim  
Report #99-24**

Prescott Follett & Associates, Inc./Brown and Caldwell (the "Contractor") submitted a claim to the District requesting \$714,737. The Contractor asserted that they were due additional compensation for additional services performed to complete the design of Pumping Stations G-310 and G-335. In addition, the Contractor sought reimbursement of additional overhead costs caused by extending the project design schedule.

We examined each claim item and provide an objective opinion regarding the validity of the claim. In our opinion, only \$4,197 of the \$714,693 claim appeared to be valid. The District has offered a settlement of this amount to the Contractor. To date no further action has been taken by the Contractor.



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## **INVESTIGATIONS**

We performed two investigations during the year:

### **Investigation of Suspicion of Irregularities at the West Palm Beach Field Station Vehicle Maintenance Facility Audit #99-20**

Based upon information provided by an informant, we investigated allegations of misappropriated parts purchases in the Fleet Management Division. Our investigation of work orders revealed transactions that were questionable. We found that at a minimum the Shop Supervisor failed to adequately review parts order forms, prior to approval, that were submitted by the Fleet Mechanic under his supervision. Similarly, the Fleet Mechanic may not have exercised due care and diligence in the preparation of his work orders. The system of internal controls for processing work orders in the West Palm Beach Field Station Vehicle Maintenance Facility are good but like many other controls can be circumvented by collusion. The costs of additional controls outweigh the benefits.

The Deputy Director Water Resource Operations responded to our draft report and indicated that WRO: 1) completed its analysis of procurement records relative to this incident by January 27, 2000, 2) executed appropriate corrective action including corrective actions for "Failure to Perform" with regard to the lack of due care and diligence in the preparation and approval of work orders, and 3) performed periodic checking of procurement records to detect early any issues regarding potential violation of system controls.

### **Peacock Pond Investigation Audit #00-02**

In response to a request from the Ombudsman, we investigated a complaint regarding "Peacock Pond" in the Village of Wellington. The District received water quality data reports from the Acme Improvement District. These reports indicated an increase in total phosphorous readings around the time that District staff believes the Peacock Pond water retention area was bypassed. The water samples were collected by Acme and analyzed either by third party laboratories or by the Village of Wellington laboratory. A process was

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not in place to analyze these reports or to investigate the cause of the rising phosphorous readings. However, since the receipt of a complaint about Peacock Pond in September 1995, the South Florida Water Management District issued a notice of violation to Acme in April 1996 and signed a consent agreement with Acme on December 11, 1997. A Joint cooperative Agreement between the District and the Village of Wellington was executed on May 23, 2000 to implement a water quality improvement plan that will replace the functions of Peacock Pond.

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## **OTHER ACTIVITIES**

The OIG periodically receives requests from District departments to consult with, and provide advice, on various projects. Such projects may entail examination or investigation of specific matters. This support may involve financial analysis, performance reviews, information systems reviews, review of rule or policy changes, contract pricing verification, or serving in an advisory capacity to assist in the decision making process regarding specific projects.

### **Comprehensive Everglades Restoration Project Funding**

Provided advice and assistance to the Executive Director, Deputy Executive Director for Corporate Resources, and an independent outside panel of prominent fiscal experts in gathering data, providing analysis, and drafting remarks relating to funding options for the CERP.

### **Land Acquisition Data Management Re-engineering**

The Design team composed of members from Water Resource Management and Corporate Resources & a team lead from the Office of Inspector General completed their conceptual redesign report. Management is moving forward and has committed resources to implement the proposed redesign.

### **Hurricane Irene After-Action Report**

Though not an audit, staff from the Inspector General's Office contributed to this project. The report's principal author was Joseph A. Schweigart, P.E., Director of ECP.

Overall, the report found the agency acted appropriately and the system operated as it was designed to do, before, during, and after the onslaught of Hurricane Irene, which struck South Florida on Friday, October 15, 1999. The report calls for improvements to the regional flood-control system, changes in reporting and administrative processes, and the need for several feasibility studies are among the 36 recommendations contained in the "After-Action Report."

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## **Response to the Defense Contractor Audit Agency Draft Report**

The OIG coordinated with District management and staff to finalize the District response to a draft report that came out of an audit of Federal Farm Bill grants requested by U.S. Department of Interior, Fish and Wildlife and conducted by Defense Contractor Audit Agency. We coordinated meetings with cognizant Federal agency and DCAA to discuss the factual content of their audit findings, assisting in response preparation and providing general expertise at the exit conference.

## **Everglades Construction Project Funding/Financial Statement Issues**

Provided advice to Everglades Construction Project Office on proposed options for balancing the ECP project's budget. These options affect borrowing, future revenues and related financial statement presentation and disclosures.

## **Everglades River of Grass Specialty License Plate Revenue, Expenditure, and Compliance Affidavit**

This was the first annual affidavit filed with the Department of Highway Safety and Motor Vehicles pursuant to statutory requirements. We reported the receipt of \$9,397 in revenues from state sales of the tags through Fiscal Year Ending September 30, 1999. There were no expenditures made during FY99 from the Everglades River of Grass fund into which the receipts were deposited. We found that fund expenditures were in compliance with State Statute.

## **Office of Inspector General Web Site**

We continue to maintain & update our web site. This site is available on both the World Wide Web and the Internal Network Web and provides District employees and the general public with the following information:

- Information Guide on the Office of the Inspector General
- Inspector General Staff
- How to Communicate Complaints to the Inspector General

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

Please visit us at [http://www.sfwmd.gov/gover/2\\_intaudit.html](http://www.sfwmd.gov/gover/2_intaudit.html)

### **Peer Review Participation**

Based on an agreement with the National Association of Local Government Auditors to reciprocate for their time spent performing a peer review of the SFWMD Inspector General's office, one of our Lead Consulting Auditors, was the team leader for a peer review of the Internal Audit Department of the City of West Palm Beach.

### **Revisions to the Whistle-blower Policy**

The District's Whistle-blower Policy §15.300 was last revised in June 1995. Since then and there have been some changes to the State's Whistle-blower Act, §112.3187 F.S. Also, it did not align well with the State's version. An Associate Attorney in the Office of Counsel, took the lead on the redraft of our policy.

The revised policy contains four new sections:

- §15.30010 - Statement of Policy*
- §15.30012 - Employees and Persons Protected*
- §15.30018 - Remedies for Adverse Personnel Action*
- §15.30019 - Relief from Adverse Action*

The new policy statement is consistent with the legislative intent and statutory requirements of the Florida Whistle-blowers Act. It acknowledges our interest in encouraging employees to report Whistle-blower type information. The other sections are constructed to prevent and/or redress if necessary, any retaliation taken against such employees for coming forward. The proposed remedies are essentially the same as the District's established employee grievance procedure except that it reserves the award of relief to the Executive Director. The adoption of this revised policy, more clearly defines our responsibilities and duties.

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## Updated Audit Committee Charter

The Audit Committee's Charter was first written and approved in 1989. The last revision, which was minor, was approved in August of 1998. Since then, on a national level, financial stakeholders have been clamoring for new and higher standards for audit committees. The Audit Committee's revised Charter is shorter and aligns well with the recommendations and sample charters of the Securities and Exchange Commission/New York Stock Exchange sponsored *Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, and the Institute of Internal Auditors Research Foundation's report entitled: *Improving Audit Committee Performance: What Works Best*.