
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



Office of Inspector General Annual Report

Fiscal Year 2001

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



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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MGT 08-06F

October 1, 2001

Governing Board Members:

Ms. Trudi K. Williams, Chairperson
Mr. Lennart E. Lindahl Vice Chairperson
Ms. Pamela D. Brooks-Thomas
Mr. Michael Collins
Mr. Hugh M. English
Mr. Gerardo Fernandez
Mr. Patrick Gleason
Mr. Nicolas Gutierrez, Jr.
Mr. Harkley Thornton

Re: Annual Report for
Fiscal Year 2001

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 2001. 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: Henry Dean

GOVERNING BOARD

Trudi K. Williams, *Chair*
Lennart E. Lindahl, *Vice Chairman*
Pamela Brooks-Thomas

Michael Collins
Hugh M. English
Gerardo B. Fernandez

Patrick J. Gleason, Ph.D., P.G.
Nicolas J. Gutierrez, Jr., Esq.
Harkley R. Thornton

EXECUTIVE OFFICE

Henry Dean, *Executive Director*

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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, 2001.

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

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

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

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

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

STAFF

The OIG consists of 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 FY01 the staff received training in such topics as:

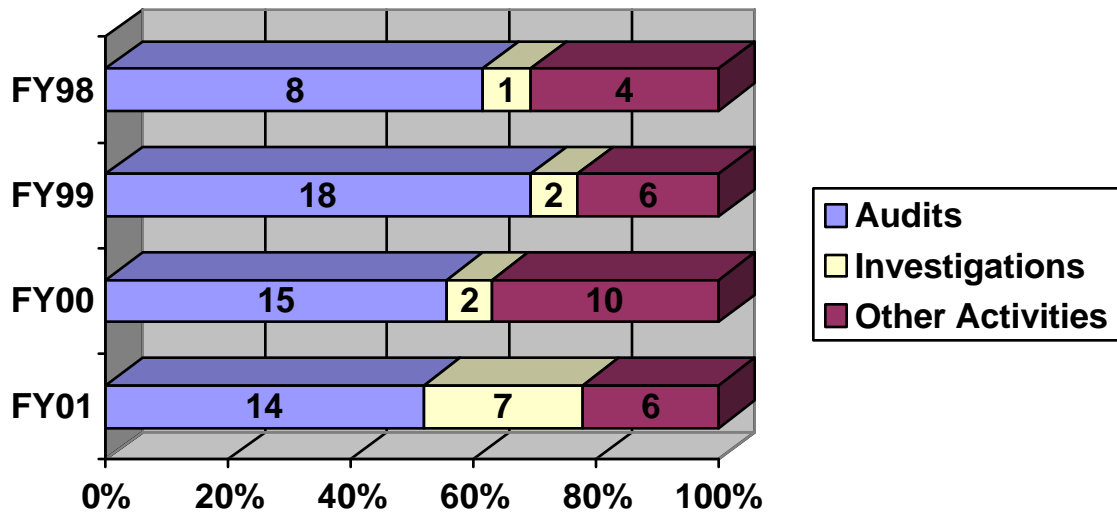
- Auditing Construction Contracts
- Performance Auditing in the Public Sector
- Value Added Auditing
- Disaster Preparation
- Data Mining
- Fraud Awareness
- Audit & Information Security
- Information Systems Auditing

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 staff 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 01 was comparable to the three previous fiscal years as illustrated in the following graph:

Inspector General Product Mix



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. The standards, which are 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.

In accordance with the Internal Audit Charter and Yellow Book Standards, the Governing Board's Audit Committee approved a peer review of the

Office of Inspector General. A peer review team from the National Association of Local Government Auditors visited the District during the week of January 29th to February 2nd. They completed an external quality control review for audits issued during the period January 1, 1998 through December 31, 2000 and found that the Inspector General's audits comply with the government audit standards issued by the Comptroller General of the United States.

AUDITS

The Inspector General's Office issued 14 audit work products during FY01. These included 12 performance audits. Performance audits include comments on economy & efficiency, program compliance, and results. We also performed 2 financial audits. A summary of each report, by category, follows:

Performance Audits:

Audit of Small Purchasing Practices **Report #00-04**

We examined the adequacy of the District's small purchasing practices. During FY00, the District purchased \$40 million in goods and services using this procurement method.

The audit recommends the strengthening of internal controls and the establishment of formal written procedures, for the purchasing function with specific attention paid to decentralized purchase orders, the vendor database, and price agreements. We also recommend specific measures be adapted by the District that would expand the number of vendors we do business with.

Audit of Outside Legal Costs **Report #00-07**

Our audit found that selection of outside counsel to represent the District is at the discretion of the General Counsel. Based on our survey of two Water Management Districts and two State agencies this practice is common. However, to improve the control environment we recommend that the internal procedures developed by Office of Counsel be institutionalized and the outside counsel selection process be documented.

We recommend that criteria be established for determining when it is appropriate to amend an existing contract or re-solicit and issue a new contract. We also found in our sample some instances where invoices for legal services were overpaid and recommended the recovery of overpayments and improving the invoice review process.

Software License Compliance Audit
Report #00-09

This report focused on assessing the compliance with licensing laws for computer software. Based upon current practices, we have concluded that there is no assurance that the number of copies of software currently in use is authorized. Similarly, individual computers are not adequately monitored to ensure that unauthorized or illegally obtained software has not been installed. Unauthorized copies of computer software can result in financial penalties and loss of public confidence in the District's management of its resources.

Diver Program Study
Report #00-11

We performed a study of District Diver procedures. Management expressed concerns about the safety of this function and also wished us to review the cost benefit of performing the function internally compared to outsourcing.

We found that the diving program, which is crucial to the District's structure maintenance program, is generally performed in a safe and efficient manner. Operations should continue the program but also issue a Request for Information and line up contractors to possibly augment its own dive teams. We also recommended improving cost accounting for the program and improvements to the dive manual and dive checklists.

Span of Control Follow-up Report
Report #00-15

Our follow-up was based on studying the most current available organizational charts dated July 15, 2000, reviewing personnel records, and extensive discussions with executive management and senior Human Resources Department staff. We found that the District's span of control has improved significantly since our study was conducted. The ratio of staff to supervisors has risen from a low of 4.2 to 5.7, a 36% improvement.

Despite improvements in span of control, layers of management do not appear to have improved. Our earlier study had reported a maximum of 7 levels of management. Management responded by setting a goal of 5 levels. Our follow-up discloses that layers of management vary from 3 to as high as 8. In order to achieve management's goal, the number of managers will have to decrease further.

Audit of the Prescribed Burning Program
Report #00-16

Our audit found that the prescribed burning program is in compliance with all recommended safety procedures. Land Stewardship could improve their procedures by designating the Florida Division of Forestry's burn manual as the Department's official burn manual. Documentation of planning could also be strengthened through the use of a go/no-go planning checklist.

State issued burn bans reduce the amount of acreage burned. We recommend that selective exemption from the ban be requested. Additionally, fire suppression plans for District properties should be negotiated with the Division of Forestry to document the least ecologically damaging methods of suppressing wildfires.

Finally, we concluded that on District properties with wildland/urban interfaces, increasing mechanical and chemical methods of fuel reduction would reduce the risk of wildfires.

Review of Contracting Practices
Report #01-01

The examination of contracting practices revealed that the use of the RFP process was often insufficiently justified. Our review of RFPs demonstrated that these procurements could have been solicited using competitive sealed bids/RFB, but user department preferences or the general rule of using the proposal method for services prevailed. Procurement staff lacks the organizational support customarily found in an environment with good controls. To improve controls over the solicitation process, we recommended that the District hire a strong Procurement Director empowered to approve the appropriate competitive strategy for obtaining goods and services.

For solicitations where it is determined that the RFP process is justified, the Procurement Department should ensure that an independent evaluation committee is assembled. We found evaluation committees that were convened often included staff that were familiar with the work of incumbent contractors. Our discussions with evaluation committee members and review of the scoring patterns of the panels revealed that incumbents had an advantage over newcomers.

Follow-up of the Audit of the
Human Resources Division
Report #01-02

Ten of the 15 recommendations made in our previous *Audit of the Human Resources Division* were fully implemented. Of the remaining five, one was in process, one was partially implemented, one was no longer applicable, and two were not been implemented. Of the two that have not been implemented, the recommendation for HR to perform long-range planning is one of the more significant recommendations from the audit.

We also found that District HR staffing levels and expenditures are excessive compared to similar organizations. Two performance measures, HR Staff per 100 Employees and HR Expenditures per Employee have increased since our last audit and currently does not compare favorably with other organizations. We recommended that the District explore outsourcing alternatives, similar to the State of Florida Department of Management Services, to determine to what extent the high cost of delivering HR services is a result of inefficiency. Outsourcing the high-volume transactional HR processes could potentially free up resources to

engage in more strategic HR activities such as long-range human resources planning.

***Audit of the District's Computerized
Maintenance Management System
Report #01-10***

The audit focused on assessing the extent to which the District's computerized maintenance management system (CMMS) is providing the anticipated and desired benefits in meeting management and maintenance needs of the Water Resource Operations Group.

The CMMS has not provided the benefits projected in the business case used to support its procurement and installation. With the planned replacement of the current Human Resource and Financial system that are the main interfaces to CMMS, it may be time to consider a replacement of the Computerized Maintenance Management System as part of the District's overall Information Technology strategic planning.

***Follow-up to Report on FY98
Non-merit Salary Actions
Report #01-12***

Non-merit salary actions decreased substantially resulting in annual cost savings of \$481,000 from FY98. Additionally, Human Resources is doing a better job of classifying non-merit salary actions. As a result, the number of actions in the "Other" category fell from 44 in FY98 to 4 in FY00. Despite these noteworthy accomplishments, HR needs to do a better job of documenting non-merit salary actions as we noted instances of inadequate or missing documentation, misclassification of the action taken, and lack of the required approval.

***Hurricane Freddy Exercise 2001
Report #01-13***

On May 30, 2001, we participated as observers of the Hurricane Freddy exercise that tests the District's Emergency Operations Center's (EOC) readiness for a real hurricane event.

We found that the "*Remedy EOC Briefing Application*," which provided a common software tool for conveying necessary and complete incident information was a significant improvement over the previous free form

reporting used in past exercises. Training was made available for the messaging software, the most critical technology for the successful operation of the EOC, but we found that staff did not take full advantage of the training. The resulting inability to properly interact with the messaging software distracted the staff from concentrating on and efficiently handling messages. Management agreed to implement our recommendations on various topical areas.

***Improvements Needed in
Capital Maintenance Protocol
For The Central and Southern
Florida Flood Control System
Report #01-18***

We examined the process that the District has in place to ensure that the infrastructure of the C&SF Project, with an estimated replacement cost of \$4 billion, is adequately maintained. Our audit revealed that the District does not have a comprehensive strategy in place for maintaining capital assets.

The audit recommends that the District adopt life cycle planning for infrastructure assets. In addition, we recommended that a commitment to long term funding be made to ensure that the backlog of capital maintenance projects is reduced.

Financial Audits:***FY00 Audit of Minority/Woman
Business Enterprise (M/WBE) Program
Report #01-06***

Pursuant to §40E-7.611(4) of the M/WBE Contracting Rule, we conducted an audit to verify the accuracy of statistical data included in the Fiscal Year 2000 M/WBE Goal Attainment Analysis Schedule. We concluded that the amounts presented in this schedule were fairly stated in all material respects. However, during the course of our audit we noted deficiencies in classifying District contracts into one of the five industry categories, resulting in many reclassifications. District management has committed to correcting this problem through training as necessary and contract classification review.

***Audit of Claimed Interest Costs
Foster Wheeler Environmental
Corporation – Contract # C-8301
Report #01-17***

Based upon a request from the former Deputy Executive Director for Water Resource Operations, we performed an audit of a claim submitted by Foster Wheeler Environmental Corporation for \$771,109 relating to a contract to develop and sell credits for the Loxahatchee Mitigation Bank. We visited their Corporate Offices in Morristown, New Jersey and reviewed their books and records. Based upon our review we questioned \$747,025 of the interest claimed through March 2001.

INVESTIGATIONS

We performed six investigations during the year:

Review of Allegations of District Contracting Impropriety by Adnan Investment & Development, Inc.
Report #01-05

This review was performed in response to a February 2, 2001 letter from the President of Adnan Investment & Development, Inc., to the Governor and Director of the FBI alleging impropriety in the South Florida Water Management District's contracting practices.

Our review revealed that records maintained by the District's Contracting Officer and Project Manager document a history of unsatisfactory contractor performance and violations of contract requirements for the projects previously awarded. The information disclosed by our inquiry suggests that the contractor's allegations had no merit. Our report was forwarded to DEP.

Investigation of Control Room Issues
Report #01-08

This report was issued as the result of a complaint made by a District employee to the Florida State Inspector General. The State Inspector General concluded that there was insufficient evidence to initiate a whistle-blowers investigation and forwarded the complaint to us. Based on our review of the allegations, most of which have been brought to our attention and management's attention in the past, we concluded that further investigation was not warranted.

Report on Investigation of Allegations of Improprieties Relating to the Okeechobee Service Center
Report #01-09

Our investigation found that the allegations were either unfounded or not sustained. We found flaws in the recruitment of positions at the Okeechobee Service Center and the use of waivers for candidates hired. We recommended an immediate District-wide review of criteria for the interview selection process and an evaluation of District-wide waiver

activities. We also recommended that personnel assigned to investigations are adequately trained and their work should be properly supervised.

Investigation of Ethics Complaint
Report #01-15

This investigation was performed in response to a letter received from the Mayor of the City of Lake Worth. In his letter, the Mayor alleged that a District enforcement and compliance inspector threatened to use his position to retaliate against Lake Worth for code enforcement violations on real property that he owned. We concluded that the allegations were sustained and represented "unbecoming conduct" pursuant to the District's Corrective Action Policy and "Misuse of Public Position" pursuant to the District's Ethics Policy. We recommended that the employee be removed from his position and that the appropriate corrective action be taken. The employee was subsequently dismissed.

Investigation of Security Guard Contract
Report #01-16

We performed an investigation to determine the validity of assertions made in an anonymous letter alleging improprieties in procuring security guard services. The letter alleged that the Director of Security promised the security guard contract to a particular company in exchange for personal favors. We found no evidence to substantiate these allegations. Furthermore, our investigation revealed that the security guard services were solicited through the normal RFP process and that the Director of Security was not a voting member of the proposal evaluation team. The anonymous letter appeared to be a retaliation attempt by a disgruntled person. We concluded that the allegations were unfounded.

Staff Compliance with Public Meetings
and Records (Sunshine) Law Requirements
Report #01-19

We performed an inquiry into how well staff complied with notice requirements, as well as, the preparation of agendas and minutes of Board meetings. Special emphasis was placed on determining what improvements can be made through appropriate checks and balances or additional safeguards.

Our review did not disclose any overt acts of malfeasance. However, because of systemic problems in how Governing Board Operations are organized, there is no assurance that these processes are appropriately performed. Our examination indicated that failures to notice meetings and prepare adequate agendas and minutes could have been avoided if there was an adequate system of checks and balances including adequate supervision. Written policies and procedures are needed along with a sound record keeping and filing system.

It should be noted that these lapses were not limited to breakfast meetings, which occasionally took place on the mornings of regular monthly meetings. Due to the aforementioned systemic problems, we found identical problems for workshops and regular meetings.

***Investigation Regarding Anonymous
Complaint Alleging Improprieties in
Procuring Printing Services
Report # 01-22***

Printing vendors indicated that District employees never asked for any type of gratuity in exchange for directing work to their business. We found no evidence enabling us to conclude that the allegations are either founded or unfounded since such opportunity exists given current procurement process controls for small purchases. Based upon our observations it might be worth exploring whether there might be some benefit to enhancing the current system of internal controls for processing purchase orders that are less than \$10,000.

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.

Audit Recommendations Follow-up Report

We followed up with management on the status of recommendations contained in audit reports between June 12, 1996 through June 13, 2001. Of the 388 audit recommendations made over the five year period, 295 have been fully implemented, 8 partially implemented, 58 are in process, 199 have seen no action to date, and 8 are no longer applicable.

Enterprise Resource Management Information System Implementation

Our Office is participating in an advisory capacity in the implementation of the Enterprise Resource Management Information System that will replace the District's current financial management information systems. The new system aims to replace a ponderous system consisting of multiple interfaced applications with one integrated system where all applications interact and share one central database. Our primary roles in this system's implementation are to ensure that a quality implementation process is followed, proper internal controls are incorporated into the system design. We also plan to perform a post implementation review to ensure that the system operates properly.

Performance Measurement

One of our Lead Consulting Auditors has been representing the Inspector General's Office as a planning liaison in periodic meetings with the Office of Performance Management. He has provided information about our Office's accomplishments and performance goals. We are also monitoring the development of District wide performance measures.

Prompt Payment Review Team

An OIG staff member is sitting in an advisory capacity on the District's Prompt Payment Review Team. This team was formed in response to legislative revisions that now subject the District to the Prompt Payment Act.

The Prompt Payment Act requires that payment for all purchases by a local government entity be made in a timely manner. If payment is made late, the entity could be liable for interest charges. In addition, the act provides for a dispute resolution process for payment of obligations. The team will evaluate the current contract invoice payment process and make recommendations to streamline it so that the District is in compliance with the act.

Visit to Boston Public Works Projects

On January 19th a group of District officials including the IG accompanied the DEP Secretary, his IG, and the Governor's Chief IG to Boston where we met with top officials for two major public works projects: the Central Artery/Tunnel Project (est. \$14 billion) & the Boston Harbor Project (\$4 Billion). We were briefed on how the two projects were organized and managed and the lessons learned. There was much discussion about the role of oversight & audit, and how to maintain budget discipline. We briefed the Executive Director on the details of the trip.

Office of Inspector General Web Site

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

- Information Guide on the Office of the Inspector General
- Inspector General Staff
- How to Communicate Complaints to the Inspector General
- Audit Reports
- Internal Audit Charter
- Audit Committee Charter
- Whistle Blower Policy
- Audit Committee Agenda

Please visit us at http://www.sfwmd.gov/gover/2_intaudit.html