
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



Office of Inspector General Annual Report

Fiscal Year 2002

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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, 2002.

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 FY03 the staff received training in such topics as:

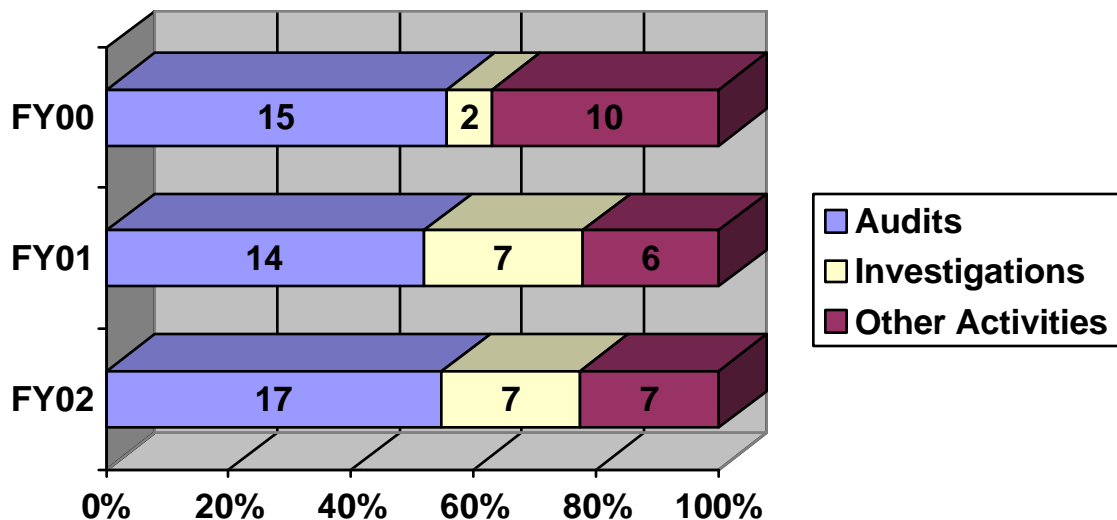
- Fraud Awareness
- Internet Security
- The Reid Technique of Interviewing and Interrogation
- Financial Analysis
- Planning and Managing Skills for Audit Leadership
- New Accounting Environment
- Auditing Standards & Computer Assisted Auditing Techniques

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, during FY02 the Office of Inspector General continues to maintain a consistent high level of productivity as compared to the previous two fiscal years.

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.

AUDITS

The Inspector General's Office issued 17 audit work products during FY02. These included 7 performance audits. Performance audits include comments on economy & efficiency, program compliance, and results. We also performed 10 financial related audits of District programs and contractors. A summary of each report, by category, follows:

Performance Audits:

Audit of Land Acquisition Program

The audit focuses on land acquisition activities that have occurred during the period 1995 to March 2001. The objective of the audit was to examine the overall strategy for land acquisition and the District's ability to fund these acquisitions. Overall, the program is undergoing significant changes. The funding and acquisition demands of the CERP is changing the land acquisition program from a once opportunistic one to a mandatory one. Our recommendations focus on better planning, cash flow, and forecast reporting. In addition, the processes, policies, and procedures related to land acquisition need to be updated for changing conditions.

Audit of the Water Use Permitting Program

The audit focused on the issuance, compliance and enforcement of the District's Water Use Permits. At the time of our audit we found that compliance was limited to complaints and large coastal users of water, approximately 30% of the allocated water supply. In order to improve permit compliance coverage, we recommended improved risk assessment, consolidation/redeployment with other Divisions and working with private industry. The compliance database does not provide the tools needed for effective and efficient compliance. Efforts to replace the database need to be a first priority. Additionally, strengthening concurrency between Environmental Resource and Water Use permits would likely decrease non-permitted water use.

Audit of the Everglades Construction Project Cooperative Agreements

The audit covered cooperative agreements with 298 Districts and Closter Farms to divert agricultural drainage from Lake Okeechobee into Storm Water Treatment Areas. The Closter Farms project and two of four 298 Districts' projects have been completed. The objectives of the audit were to substantiate expenditure reimbursements, assess compliance with agreement terms, and evaluate whether best business practices were followed in administering the projects. Overall, contract provisions were complied with and no questioned costs were identified. However, based on our recommendations the District undertook greater oversight and participation for the remaining projects.

At the time of our audit we reported that the current ECP projected deficit of \$21 million does not include \$7.1 million needed to fund the two remaining 298 Districts' projects. Additional funding for the project may be necessary if additional cost savings are not achieved. One possible option available to the District is to extend the 1/10th Mill Ad Valorem Tax for the length of time necessary to generate sufficient revenue to cover the current projected budget deficit and fund the remaining 298 District projects. Exercising that option, if necessary should require Governing Board approval.

Audit Report of the Hydrologic Modeling Program, System Development Life Cycle

The District professional staff depends upon a variety of computer models to evaluate the impact of water related issues. We reviewed the standards used by the Hydrologic Systems Modeling Division staff in the development, application, and maintenance of three major District computer models.

The audit recommended the development of a strategic modeling plan, the formalization of the model development process, increased security for program code and system access, implementation of the less costly improvements to the hardware/software modeling configuration, and a "job study" of the modeling positions. Staff will also develop recommendations aimed at meeting the increased demand for modeling.

Audit of the Lake Okeechobee Protection Program

The primary objective of the audit was to test compliance with the statute. We tested provisions of the Act to ensure that the District met statutory mandated dates. Other objectives included a review of a sample of procurements related to the Lake Okeechobee Protection contracts to ensure that District Procurement Policy and standards were adhered to.

Our examination indicated that two provisions of the Act did not meet the statutory timelines. We found four contracts that were running between forty-five to one hundred and twenty days behind schedule. However, discussions with project managers and a review of file documentation indicate that these contracts will be completed in sufficient time to include findings from these contracts into the Lake Okeechobee protection plan.

Audit of the District's Training Program

Our audit focused on evaluating the program that the District has in place to train its employees. The audit found that the process used to train employees was comparable to other organizations. In FY00 the District was able to provide its employees with more hours of training at a lower cost than other public sector organizations. However, since FY00, the cost of training has increased and we recommend measures that can be taken to maintain the efficiency of the program. These measures include better fiscal management of the program capping the quantity of training provided annually to each employee; and exploring alternative training methods.

Audit of Financial System's Change Control & Backup/Recovery Process Controls

This audit was performed pursuant to a request from the Director of Information Technology. An incident occurred that seriously impacted the operations of the computer system that contains the District's financial data. The incident involved the corruption of the general ledger file within the computer system and later the inability of staff to recover the file from the normal backup copy. As a result, the general ledger had to be "rebuilt".

We found that the incident resulted from compounded departures from acceptable Information Systems operating practices, ie., lack of computer access controls, assigning conflicting duties, which should have been separated, lack of documentation or review of the daily activities, and circumventing change control procedures for the financial applications. Finally, the verification feature that would have detected errors during the creation of the financial backup files (save sets) was not used.

Subsequent to the incident, the Director of the Infrastructure Services Division initiated a formalized comprehensive process for “change control.”

Financial Audits:

Broward County Tax Collection Audit

The objective of the audit was to determine the District's allocable share of tax collection cost for Broward County and whether the District is entitled to any refunds of commissions paid. The audit revealed that Broward County has overcharged the District approximately \$5.6 million for tax collection commissions over the ten-year period from 1991 through 2000 and is currently overcharging the District approximately \$900,000 per year. The audit found the total cost of tax collection activities to be reasonable; however, we disagreed with the methodology applied in allocating these costs to the District. The audit recommended District staff pursue a refund of \$5,632,421 and require Broward County to refund the proper amount of excess fees for FY 2001, FY 2002, and all future years.

Audit of the Proposed Upgrade/Replacement of the SCADA System

Our audit focused on assessing the appropriateness of the selected technology for the District's SCADA system and analyzing the reasonableness of the ten-year cost estimate for the SCADA capital outlay and operating costs. The audit found that District staff's technical case is well supported and the selected technology is appropriate for the District's needs. Also, less than 1% of the estimated ten-year cost is for Motorola's proprietary MOSCAD technology.

The audit of the ten-year SCADA cost projection indicates the cost to be approximately \$292 million - approximately \$110 million less than the estimate presented to the Governing Board on April 10, 2002. Of the \$292 million, only \$55 million (19%) is due to new capital and maintenance spending and approximately \$43 million, or 15% is due to inflation. Furthermore, the SCADA cost estimate includes approximately \$44 million of capital expenditures that will be funded through dedicated funding sources such as CERP and ECP.

The audit recommended requesting more extensive assistance from the Accounting and Financial Services Division, validating the necessity of new sites, and ensuring that SCADA expenditures are charged directly to the appropriate programs.

FY 2001 Payment Voucher Audit

Overall, our audit revealed that the District is complying with established disbursement policy and guidelines. However, we did make recommendations for improvement in shortening payment processing time, obtaining required authorizations, verifying invoice rates with rates in contracts, and improving disbursement documentation.

Report of Pre-award Review of HDR Engineering, Inc. (HDR) for The Lake Okeechobee Watershed Project Under RFP # C-C10110P,

Report of Pre-award Review of Pricing Proposal Submitted by Jacobs/MWH, Joint Venture, for CERP Program Management Services Under RFP # C-C2070P

Report of Pre-award Review of CH2M Hill, Inc. Overhead Rate for the (Lake Okeechobee) Aquifer Storage & Recovery Project Under RFP # C-C10003P

Report of Pre-award Review of Post, Buckley, Schuh & Jenrnigan, Inc. Environmental Services Division, Overhead Rate for the (Hillsboro) Aquifer Storage & Recovery Project Under RFP # C-C10003P

Report of Pre-award Review of Water Resource Solutions, Inc. Overhead Rate for the (Caloosahatchee River) Aquifer Storage & Recovery Project under RFP # C-C13301P

Report of Pre-award Review of the Ecology and Environment; CH2M Hill and Mock, Roos & Associates, Inc. Overhead Rate Statements for the North Palm Beach County Project Implementation Reports RFP# C-C11702P

Report of Pre-award Review of Stanley Consultants, Inc. and Parson Engineering Science, Inc. Overhead Rate Statements for the C-43 Basin Reservoir Project Implementation Reports RFP# C-C10401P

These pre-award audits were requested by the Governing Board and/or Procurement Director to provide field-pricing support to the Procurement Department. We reviewed the cost proposals and overhead submissions of these prospective contractor(s) in varying degrees to ensure that the proposed labor overhead rates, other direct costs and profit rates were allowable, allocable and reasonable. We provided the Procurement

Department with our recommendations, which they used, for negotiation purposes.

INVESTIGATIONS

We performed seven investigations during the year. This included two MBE Certifications, two ethics violations, one alleged misappropriation of funds, one alleged acquisition impropriety, and one in control room issues.

Investigation of Alleged Pump Acquisition Improprieties

We conducted an investigation of pump specifications, the procurement process related to pump acquisitions and other complainant allegations. To assist us with the technical aspects of the investigation we engaged an engineering firm with pump expertise to review the pump specifications. We found that the pump specifications were restrictive but reasonable considering the environment in which the pumps were operating. Based on our findings staff is developing standardized specifications, will consider separating bidding pump equipment from pump stations, and developing of more transparent methodology for selecting vendors.

Investigation of Civil Technologies, Inc.'s Certification under the District's M/WBE Program

Based upon a request from the Procurement Department's Office of Equity in Contracting, we examined the financial records and other documentation of Civil Construction Technologies (CCT) to determine whether is an eligible Minority/Woman Owned Business Enterprise. We determined that the company does not meet the eligibility standards and should be decertified.

Ethic's Investigation

At the request of management, we investigated whether an employee violated the ethic's policy and accepted a gift from a firm while serving as project manager and a member of a Vendor Selection Committee. We concluded that the employee violated the District's ethics policy and recommended that the employee be required to attend the Office of Counsel's Ethics, Sunshine Law, and Public Records workshop. Pursuant to the Corrective Action Policy §03.60300 further disciplinary action was taken by management.

Investigation of Allegation of Misappropriation of District Funds

We were asked to investigate an allegation that funds were misappropriated based upon race. Our investigation resulted in a finding of “Unfounded” meaning that the allegation is false or not factual. Our investigation further revealed that it was the complainant who attempted to misappropriate District funds by trying to unilaterally cancel four purchase orders by deceitful means and without authority. Further, we found that the allegation of racial bias was false and, together with the allegation of misappropriation of funds, amounts to the filing of a false complaint. Management took appropriate disciplinary action in accordance with the District’s Standards of Conduct and Corrective Action Policy.

Investigation of Berryman & Henigar, Inc.’s (BHI Florida) Certification under the District’s Minority Business Enterprise (MBE) Certification

Based upon a request from the Procurement Department’s Office of Equity in Contracting, we examined the financial records and other documentation of Berryman & Henigar, Inc. to determine whether it’s an eligible Minority Owned Business Enterprise. We determined that the company is affiliated with other non-minority businesses and therefore does not meet the eligibility standards and should be decertified.

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.

District Outsourcing Study

The study focused on determining the process that needs to be in place, and critical factors that need to be considered before deciding whether to outsource a District activity.

We reviewed all programs at the District to determine a baseline of what activities are already being outsourced/contracted at the District. The Study identified a list of potential outsourcing opportunities at the District and areas that should not be outsourced.

The study recommended that a separate office or manager should be responsible for developing a framework and tools for a consistent District approach to outsourcing.

In related issues, we recommended that the District consider designing an accounting/budget system to accumulate and record overhead costs by beneficial cost center. This will allow the District to determine the actual total cost of activities for comparison to outsourcing bids. We also recommended consolidating administrative personnel performing centralized common functions to obtain internal efficiencies.

Hurricane Freddy 2002 Exercise

On June 28, 2002 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.

With the Field Station and Service Center representatives functioning on-site at District Headquarters for the first time in an exercise, the staff successfully demonstrated their readiness for an emergency event. However, the Section Leaders and the IG's Office found some areas where improvements could be made.

Audit Recommendations Follow-up Report

This report on the implementation status of audit recommendations is for the period August 4, 1998 through June 20, 2002. We are pleased to report that District management has satisfactorily addressed most of our audit recommendations. Of the 325 audit recommendations:

231 have been fully implemented (71%),
8 have been partially implemented (3%),
55 are in the process of implementation (17%),
21 have seen no action to date (6%), and
10 are no longer applicable (3%).

Of the 55 recommendations in process, there are 10 past the committed due dates and 45 that are planned to be implemented by the responsible department's scheduled completion date.

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 Measurements Development Taskforce

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 and worked with Office of Counsel in developing their performance measures. He has also worked with the Office of Strategic Planning and Program and evaluation on developing a draft Performance Measures Development Handbook, in addition to 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 is evaluating the current contract invoice payment process and has made recommendations to streamline it so that the District is in compliance with the act.

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