

SOUTH FLORIDA WATER MANAGEMENT DISTRICT



**Office of Inspector General  
Annual Report**

**Fiscal Year 2005**

Prepared by  
**Office of Inspector General**

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## INTRODUCTION

In accordance with the Section 20.055 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, 2005.

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 and Finance Committee appointed by the Chairman of the Board. The Audit and Finance Committee operates under an Audit Committee Charter established by the Board.

The Internal Audit Charter adopted by the 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 Section 20.055, F.S., includes:

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

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## **STAFF**

The office currently consists of five professionals: an Inspector General, a Director of Auditing, one Lead Information Systems Auditor, one Lead Consulting Auditor and one Executive Assistant. The Inspector General is an active member of the Florida Bar Association and the Director of Auditing and two Auditors maintain active Certified Public Accountant licenses. Professional affiliations are as follows:

- Association of Inspectors General
- American Institute of Certified Public Accountants
- Institute of Internal Auditors
- National Association of Local Government Auditors
- 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 FY05 the staff received training in such topics as:

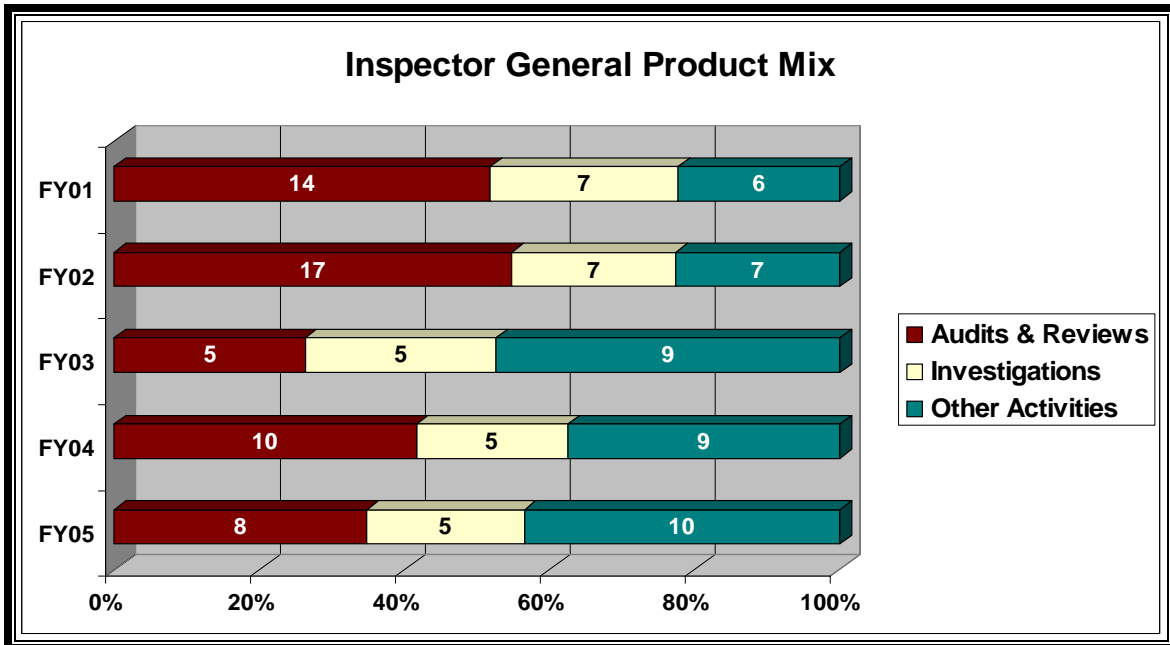
- Operations Management
- Financial Management
- E-Commerce & Internet Business Applications
- Marketing Management
- Investment Management
- Integrated Auditing
- Information Systems
- Interviewing Techniques

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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 review of the District's Strategic and Annual Work Plans, 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 FY05 was comparable to the two previous fiscal years but less than FY01 and FY02. This is due to a redirection of two OIG staff members to other District departments, 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, 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.

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## **AUDITS & REVIEWS**

In FY05, the Inspector General's Office focused on performance auditing and completed eight audits and reviews of programs and processes. Performance audits include comments on economy & efficiency, program compliance, and results. A summary of each report follows:

***Audit of FY 2005 First Quarter Annual  
Work Plan Success Indicators  
Project #05-08***

This audit focused on determining whether the projects with specific first quarter success indicators were accurately reported to the Governing Board. The scope entailed verifying that the statuses of projects with first quarter milestones were properly reflected in the first quarter report. Overall, we concluded that the statuses of the projects were fairly reported; however, our review did indicate a few minor differences. We did not identify any instances where the project status was intentionally misrepresented.

***Audit of Construction Contract Management Practices  
Project #05-10***

This audit focused on assessing whether construction contracts were properly administered subsequent to contract award. Our results indicated that, overall, District staff effectively managed contracts; however, there were instances where site inspections were not performed and bi-weekly meetings were not held. We also found that only 25 of 55 sampled pay applications (invoices) contained some indication of review. In addition, there were a few instances where contractors were overpaid for a specific month; however, these overpayments were identified and corrected in subsequent months. In one instance, an \$11,463 early payment discount was not taken by the District. We also found payments for 2 out of the 30 change orders reviewed were made to contractors before the change orders were approved.

Our results indicated that Construction Division's staff diligently negotiates with contractors to obtain the best prices for change order work; however, we noted that a thorough understanding of the allowable fees outlined in the contract's general conditions

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and consistent applications of these conditions could have resulted in even lower change order costs. Our review of selected change order items totaling \$6,490,402 identified potential savings of \$87,873 had Construction Division's staff fully understood the general conditions relating to change orders. We also found that retroactive change orders were processed for three of the ten sampled contracts and that the Construction Division does not have formal written procedures. We made ten recommendations for improvements that will further strengthen the contract management process

***Report on Employee Benefits***  
**Project #04-06**

The objectives of this report were to determine how District employee fringe benefits compare with other local governmental agencies in Palm Beach County as well as comparing the employee benefit cost to the nationwide for-profit sector. These analyses were based on a survey performed by the Palm Beach County Healthcare District of 12 organizations and a nationwide survey performed by Watson Wyatt.

The review revealed that, overall, the District's employee benefits are comparable to those of other governmental organizations in Palm Beach County. We also found that the District's employee benefits as a percentage of salaries were about 2% points higher than the nationwide for-profit sector. However, the same data revealed that the government/not-for-profit sector is also about 2% higher than the for-profit sector. Thus, the District's benefits are consistent with this trend.

Another objective was to determine whether the sick leave incentive program reinstated in 1996 has improved the productivity of the District's workforce. We found that subsequent to reinstating the Sick Leave Incentive Program in October 1996, the average number of sick leave hours has decreased, which has resulted in an overall increase in productivity of the District's workforce.

***Follow-up Audit of the District's Security Program***  
**Project #05-12**

This report presented the statuses of recommendations made in the Audit of the District's Security Program (the "Security Audit"), Report #03-08 issued in December 2003.

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The Security Audit is exempt from public disclosure pursuant to Florida Statutes, section 119.071. Consequently, the statuses of the recommendations in the Security Audit were excluded from our regular annual follow-up report that was issued in January 2005. The content of the follow-up report is also exempt from public disclosure. Eleven of the 13 recommendations contained in the Security Audit report have been fully implemented. The remaining two recommendations were in the process of being implemented.

***Review of the New Budget Process***  
**Project #05-14**

Objectives entailed reviewing the FY05 budget development to determine if the process was actually executed as designed. We also reviewed the process for developing the Target Budgets and compared the District's budget process to the Government Finance Officers Associations' budget process best practices.

The District budget process was significantly modified for the FY05 budget. The new process entails first developing Target Budgets for each major program. Each program coordinator, in corroboration with departments, then develops expenditure budgets for each program within the constraint of the Target Budget.

We found that the new budget development process appears to be executed as designed and is a major improvement over the old system. Overall, Program Coordinators and Budget Analysts were complimentary of the new process and thought it did a good job of communicating the District's long and short range plans, as well as emphasizing strategic priorities and enhancing accountability. We also found that the District's new budget development process compared favorably to the Government Finance Officers Association's budget process best practices.

***Audit of FY 2005 Second Quarter Annual***  
***Work Plan Success Indicators***  
**Project #05-16**

The objective of this audit was to determine whether the projects with specific second quarter success indicators were properly reported to the Governing Board. Overall, we concluded that the statuses of the projects were properly reported; however, our review did



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indicate a few minor differences. All success indicators were properly reported based on the circumstances and information available at the time the FY05 Second Quarter Report was prepared, except for the one instance where the indicator was inadvertently reported as yellow.

***Review of Record System for Success Indicator Reporting***  
**Project #05-18**

Management requested our Office review the internal controls regarding payroll exceptions as a result of a recent incident where a material exception went undetected before funds were transferred to accounts for employees' on direct deposit. Staff subsequently detected the error and the funds were returned.

Our objective was to analyze the cause of the payroll processing error and determine whether management's proposed changes would strengthen the system of internal controls over payroll and adequately address the problem. We provided our recommendations to management that will improve controls over the payroll process and increase the likelihood of catching this and similar errors.

***Audit of FY 2005 Third Quarter Annual***  
***Work Plan Success Indicators***  
**Project #05-21**

The objective of this audit was to determine whether the projects with specific third quarter success indicators were properly reported to the Governing Board. Overall, we concluded that the statuses of the projects were properly reported; however, our review did indicate seven instances where the actual status was different from the green status represented in the Third Quarter Report.

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## INVESTIGATIONS

We performed five investigations during the year: A short summary of each investigation is as follows:

### ***Investigation Alleging Unethical Conduct of Minority Vendor*** **Project #05-03**

We received a complaint from a Minority/Women Owned Business Enterprise (MWBE) vendor alleging unethical conduct by another vendor. The MWBE vendor alleged that they received a verbal proposal from another firm requesting that the MWBE serve as a front for the other firm in order to secure a District contract. We concluded that the allegation was not sustained due to insufficient evidence to either prove or disprove the allegation.

### ***Investigation Regarding Allegation of Certain District Employees Improper Use of District Time*** **Project #05-04**

The District's Executive Director received an anonymous complaint alleging that two District employees had been conducting their private business during District working hours. For one of the employees we found a considerable amount of evidence that substantiated the allegation. We also found evidence that this same employee had used sick leave under false pretences to make several business trips. We found that the allegations regarding the other employee were unfounded.

### ***Complaint Alleging Improprieties by a District Manager and an Outside Contractor*** **Project #05-05**

At the request of the District Leadership Team, our office conducted an investigation regarding a complaint received from a District employee. The complaint alleged improprieties by a District division director (the "Division Director") and an outside contractor (the "Contractor"). The complaint alleged that the Contractor agreed to hire the wife of the Division Director in exchange for a large work order under the Science and

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Engineering Support Services contract. The complainant contended that the Division Director inflated the value of a work order by bundling unrelated tasks in the scope of work and manipulated the award process to ensure that it was directed to the Contractor.

We confirmed that the Contractor did hire the Division Director's wife; however, we found no corroborating evidence to substantiate the complainant's allegation that the Contractor conspired with the Division Director and agreed to hire his wife in return for a large work order.

Although we concluded that the allegation regarding the Division Director and the Company conspiring to hire his wife was not sustained (we could not prove or disprove the allegation), we did find that the Division Director manipulated the work order preparation and sequencing process in order to direct a large work order to the company. However, evidence also suggested that the Division Director's motive for directing the large work order to this firm was because they hired two former District leased employees who had extensive experience with the type of services to be provided under this work order.

***Investigation of the Broward Service Center Burglary***  
**Report No. 05-11**

We assisted the District's Security Division with investigating a burglary that occurred at the Broward County Service Center on the night of March 7, 2005. The estimated replacement cost of stolen computer and other electronic equipment is approximately \$13,300. Our information was provided to the Plantation Police Department who conducted a formal investigation. Although a person of interest was identified the case remains unsolved and no arrests have been made. However, we did determine that no District employees were involved.

***Investigation of a Citizen's Complaint Regarding***  
***Management of a Best Management Practices (BMP)***  
***Project in the Feeder Canal Basin***  
**Project #05-13**

A property owner of land in the C-139 Basin, located in Hendry County, alleged that an adjoining property owner received preferential treatment in administering a District

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sponsored BMP project, and raised concern that corruption may be involved. The land owner also contended that the BMP improvements to an adjoining property resulted in the District illegally flooding their property during the rainy season. This complaint was initially received by the District's Ombudsman. At the request of the property owner, our Office coordinated with the Ombudsman's office to investigate the allegations regarding possible corruption and illegal flooding. The Office of Counsel assisted us with addressing a couple of legal issues. None of the complainant's allegations were sustained. Also, our investigation did not reveal any corruption by District staff.

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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, investigation or analysis 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. In FY05 the OIG received eight such requests and performed one administrative project. These are summarized below.

### ***Hill & Knowlton Pre-Award Audit*** **Project # 05-01**

Management requested our assistance with determining if the billable labor rates that Hill & Knowlton (H&K) proposed were fair and reasonable based upon the supporting documentation they provided. We determined that the information H&K provided was insufficient and requested that H&K provide additional information to substantiate base salaries and overhead rates. H&K provided base salary information but not overhead information. Notwithstanding the limited information provided, we calculated what we determined to be fair and reasonable billable labor rates based on other available information and provided our recommendation to management. The rates we recommended were below those that H&K submitted.

### ***Cooperative Agreement with Roland Marina*** **Project # 05-02**

Management requested our assistance with calculating the estimated fair and reasonable compensation for economic losses that Clewiston Marina, Inc. – dba. Roland & Mary Ann Martin's Marina incurred due to the temporary closure of the District's S-310 Navigation Lock. We performed the requested analysis and provided our recommendation to management.

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***Cooperative Agreement with Jolly  
Rogers Marina Clewiston, Inc.  
Project # 05-06***

Management requested our assistance with calculating the estimated fair and reasonable compensation for economic losses that Jolly Roger Marina Clewiston, Inc. incurred due to the temporary closure of the District's S-310 Navigation Lock. We performed the requested analysis and provided our recommendation to management.

***Cooperative Agreement with B&S Properties  
of Clewiston Inc., Angler Marina, Inc.  
Project # 05-07***

Management requested our assistance with calculating the estimated fair and reasonable compensation for economic losses that Anglers Marina incurred due to the temporary closure of the District's S-310 Navigation Lock. We performed the requested analysis and provided our recommendation to management.

***Review of Change Order #12 for Contract  
CE307 With Shaw Environmental, Inc.  
Project # 05-09***

Management requested that our Office review a large change order for a construction contract with Shaw Environmental, Inc. (Shaw). This change order settled all outstanding claims, for which Shaw requested \$1,504,816 and 358 additional contract days. Negotiations resulted in District staff and Shaw agreeing to settle all these outstanding claims for \$711,200 and 204 additional contract days.

We reviewed the change order supporting documentation and concluded that all claim items were due to a change in the contract's original scope of work and therefore justified. Also, the methodologies, unit estimates and unit prices used to estimate the additional value of the work appeared fair and reasonable.

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***Review of Internal Controls Over Payroll Exceptions***  
**Project # 05-17**

Management requested that our Office review the internal controls regarding payroll exceptions as a result of a recent incident where a material exception went undetected before funds were transferred to accounts for employees' on direct deposit. Staff subsequently detected the error and the funds were returned.

Our objective was to analyze the cause of the payroll processing error and determine whether management's proposed changes would strengthen the system of internal controls over payroll and adequately address the problem. We provided our recommendations to management that will improve controls over the payroll process and increase the likelihood of catching this and similar errors.

***Complaint Regarding Land Leases***  
**Project No. 05-19**

Our Office was requested to determine the merits of a complaint received from a former District employee alleging that he was terminated from his job because of his knowledge of a sublease involving a non-profit corporation. We concluded that the allegations were unsupported and unfounded.

***Emergency Management: Hurricane Freddy Exercise 2004 and EOC Activation During Hurricanes Charlie, Frances, and Jeanne***  
**Project No. 04-14**

The Emergency Management Department requested our Office to observe the 2004 Hurricane Freddy Exercise conducted on May 20, 2004 and prepare a report of our observations. The 2004 exercise focused on creative problem resolutions. Our report concluded that the exercise's major objectives were met.

We expanded the scope of this report to also address how well the District's emergency response process worked during the three 2004 hurricane season's events – Charlie, Frances, and Jeanne. Overall, EOC participants and field personnel performed superbly during the actual hurricane events. They put their experience and training to work prioritizing situations, allocating resources and managing the myriad of challenges that were

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presented. Staff's performance is even more remarkable when considering the hardship and adversity that many of them endured in their personal lives. Numerous District employees suffered extensive damage to their homes and had no electricity but still managed to put these difficulties aside and performed at a very high level.

***Audit Recommendations Follow-up Report***  
**Project #05-22**

We followed up with management on the status of recommendations contained in audit reports from FY99 through FY05. Of the 350 audit recommendations made over the seven year period, 310 (89%) have been fully implemented, 3 (1%) partially implemented, 16 (4%) are in process, and 21 (6%) are no longer applicable. There were no recommendations in the "Not Implemented" category.

Comparing the status of recommendations between FY04 and FY05 reports showed an improvement in the "Implemented" category from 86% to 89%. Conversely, the "In Process", "No Longer Applicable", and "Partially Implemented" categories were slightly lower than the prior year. Notable is that no recommendations fell into the "Not Implemented" category for the current and previous years. The "No Longer Applicable" category includes items where conditions have changed subsequent to issuance of the audit report that rendered the recommendation no longer relevant, such as:

- Alternative compensating controls have been put in place.
- A decision was made to implement a new system that will address the issue making it impractical to retrofit the existing system (e.g. eQuest, IRIS, ePermitting, etc).
- The policy, statute, or rule has changed (e.g. repeal of the MBE Rule).



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*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 and Finance Committee Charter
- Whistle Blower Policy