



St. Johns River Water Management District

Michael A. Register, P.E., Executive Director

4049 Reid Street • P.O. Box 1429 • Palatka, FL 32178-1429 • 386-329-4500 • www.sjrwmd.com

October 3, 2022

Rob Bradley, Chairman
St. Johns River Water Management District
4049 Reid Street
Palatka, Florida 32178-1429

Re: Six-Month Status Update – Implementation of Florida Auditor General’s Recommendations

Chairman Bradley,

The Florida Auditor General’s audit report number 2022-194, released in April 2022, contained six findings with recommendations. District management provided written responses concerning five findings, and the Inspector General provided a written response to the sixth finding. All District responses to the audit report’s findings were generally in agreement with the Auditor General – this letter provides a six-month status update on their implementation. The Inspector General is required to provide this update to the Joint Legislative Auditing Committee in accordance with section 20.055, Florida Statutes.

Finding No. 1 – Land Purchases

Finding 1: Contrary to District rules, the District did not always maintain records to demonstrate how the appraised value of property was used to negotiate property purchase prices or present appraisal information concurrently with land purchase agreements proposed to the Board.

Recommendation: The District should establish procedures that require and ensure that the district complies with District rules by maintaining records of property acquisition negotiations based on the appraised value of property and by presenting appraisal information to the Board concurrently with the presentation of proposed purchase agreements.

District Response: With regard to land purchases, the District has developed procedures to ensure compliance with District rule 40C-9.041(6), F.A.C., regarding maintenance of a file which summarizes negotiations with prospective sellers, and District rule 40C-9.061(4), F.A.C., regarding presentation of appraisal information to the Governing Board concurrently with the proposed purchase agreement. Further, the District has implemented process improvements to better document how appraisal information is presented to the Governing Board.

Management’s Update: Management provided a copy of their revised procedures document, *Real Estate Services Process Guide*, for this update. The Inspector General verified that the recommended specific written procedures for property acquisitions are included in the document and considers the recommendation fully implemented.

GOVERNING BOARD

Rob Bradley, CHAIR
FLEMING ISLAND

Ryan Atwood
MOUNT DORA

Maryam H. Ghyabi-White, VICE CHAIR
ORMOND BEACH

Doug Bourmique
VERO BEACH

J. Chris Peterson, SECRETARY
WINTER PARK

Douglas Burnett
ST. AUGUSTINE

Cole Oliver
MERRITT ISLAND

Ron Howse, TREASURER
COCOA

Janet Price
FERNANDINA BEACH

Finding No. 2 – Monitoring Construction Pay Requests

District personnel did not document comparisons of design build (DB) firm pay requests for the Apopka Service Center Construction Project (Apopka Project) to the guaranteed maximum price contract or subcontractor contracts and invoices. Such documented comparisons help increase the likelihood of savings in material and labor costs, prevent cost overruns or other impediments to successful completion of GMP contracts, and verify the propriety of DB firm pay requests.

Recommendation: The District should enhance procedures for monitoring DB firm pay request to include a documented comparison of the cost items in the DB firm pay requests to GMP contracts and applicable subcontractor contracts and invoices before payment is made to the DB firm.

District Response: The Preliminary Audit Finding states the following, in part: “We selected two DB [Design Build] firm pay requests and related payments containing subcontractor service costs totaling \$329,383 for 6 subcontractors and found that those pay requests and payments were consistent with the applicable subcontractor contracts.” Additionally, “our comparison of the Apopka Project DB firm construction pay requests for four selected payments totaling \$914,807, GMP [guaranteed maximum price] contract, and applicable subcontractor invoices disclosed that the services and related amounts agreed.”

The DB contract provides that all invoices shall include, among other information, “supporting documentation as to cost and/or project completion.” The contract also provides that invoices that do not contain the required information will be returned without action. If the District enters into a DB contract in the future, the District will enhance procedures for review of invoices that include payments to subcontractors and appropriate documentation of such review.

Management’s Update: *The District has not entered any additional design build contracts and does not have any such contracts pending. In the event the District enters into a design build contract in the future, the District will enhance procedures for review of invoices that include payments to subcontractors and appropriate documentation of such review.*

Finding No. 3 – Subcontractor Selection

District construction administration monitoring procedures for the Apopka Project did not include documented attendance by District personnel at the subcontractor bid openings or documented comparisons of the subcontractor bids and contracts to verify that the DB firm used a competitive selection process to select subcontractors.

Recommendation: The District should enhance procedures to ensure that District personnel document attendance at subcontractor bid openings and comparisons of selected subcontractor bids to subcontractor contracts to verify that the DB firm used a competitive selection process to select subcontractors and that the selected bid and contract amounts agree.

District Response: As required by the DB construction contract for the Apopka Project, the DB firm solicited bids and awarded subcontracts. Notably, the Preliminary Audit Finding determined “subcontracts were competitively selected, and the low bid and contract amounts agreed.” Although there are no Florida statutes or rules for attending bid openings conducted by the DB firm, nor does the contract with the DB firm require it, the District will make a concerted effort to attend bid openings, request copies of bid solicitation advertisements and bid tabulation sheets, and document such actions if a future project utilizes a DB firm.

Management's Update: *The District has not entered any additional design build contracts and does not have any such contracts pending. In the event the District enters into a design build contract in the future, the District will make a concerted effort to attend bid openings, request copies of bid solicitation advertisements and bid tabulation sheets, and document such actions.*

Finding No. 4 – Subcontractor Licenses

The District did not verify the licenses of subcontractors before they commenced work on the Apopka Project.

Recommendation: The District should establish procedures to require and ensure that documentation is retained to demonstrate the verification of subcontractor licenses before the subcontractors commence work on District facilities.

District response: The Preliminary Audit Finding noted that the auditors sampled “9 of the 26 subcontractors with contract amounts totaling \$3 million for services on the Apopka Project and determined through online licensing searches that the subcontractors were properly licensed.” The DB construction contract provides as follows: “Design-Builder shall maintain an adequate and competent professional staff. Design-Builder's employees, subcontractors, or agents shall be properly trained to meet or exceed any specified licensing, training and/or certification applicable to their profession. Upon request, the Design-Builder shall furnish proof thereof.” The District believes this contract provision provides appropriate oversight; however, if the District enters into another DB contract, the District will request that the Design-Builder furnish the proof of subcontractor license status as provided in the contract terms.

Management's Update: *The District has not entered any additional design build contracts and does not have any such contracts pending. In the event the District enters into a design build contract in the future, the District will request that the Design-Builder furnish the proof of subcontractor license status.*

Finding No. 5 – General Conditions Costs

The District needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of DB firm general conditions costs.

Recommendation: The District should establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general conditions costs included in GMP contracts. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating those costs. In addition, the District should include provisions in GMP contracts to require that contractors provide sufficient documentation to support and substantiate the general conditions costs for which contractors seek reimbursement.

District Response: The District is evaluating its current practices. This evaluation includes consultation with other water management districts to review their policies, procedures, and best practices for negotiating general conditions costs. The District will work to implement appropriate changes with the goal of maximizing cost savings associated with general conditions costs in guaranteed maximum price (GMP) contracts.

Management's Update: *The District has not entered any additional design build contracts and does not have any such contracts pending. In the event the District enters into a design build contract in the future, the District will work to implement appropriate changes with the goal of*

maximizing cost savings associated with general conditions costs in guaranteed maximum price (GMP) contracts.

Finding No. 6 – Internal Audit Activity

District inspector general procedures could be improved to ensure that the internal audit activity is subject to periodic external quality assurance reviews as required. A similar finding was noted in our report No. 2019-079.

Recommendation: The District should establish effective IG policies and procedures that require and ensure compliance with State law. Such policies and procedures should specify the auditing standards that will be followed for each IG activity, ensure that an external peer review of the IG internal audit activity is received within the prescribed time frame established by the applicable auditing standards, and identify the employee responsible for contracting for and ensuring timely completion of the reviews.

District response: The District Inspector General agrees with the finding and recommendation and is currently revising district internal auditing procedures and supporting documents to conform to the latest version of the Institute of Internal Auditors, International Professional Practices Framework, *International Standards for the Professional Practice of Internal Auditing*.

Completion of an external quality assurance peer review under these standards is tentatively planned for 2023, with scheduling dependent on the reviewer's current backlog of work and their scheduling practices. The specific reviewing organization has not yet been formally selected and engaged. The Inspector General will be responsible for ensuring the external peer review is arranged and completed, with follow-up reviews conducted at five-year intervals thereafter as required by the Standards.

Inspector General's Update: The Inspector General has made a formal written request to the most relevant professional association to perform the recommended quality assurance peer review of the internal audit activity during fiscal year 2022-23. A successful peer review will satisfy the audit finding and will be reported to the Governing Board upon completion.

The Inspector General believes that finding 1 has been satisfied and agrees with management's updates for findings 2-5. The activity that forms the basis for the condition in findings 2-5, construction of a new office building using the noted specific type of contract, occurs infrequently. If this activity and condition does recur soon, the Inspector General will review actual contract management practices to ensure the Auditor General's recommendations are implemented.

Sincerely,



Sam Gardner, CIG, CIA, CGAP, CISA, CFE
Inspector General

cc: Governing Board Members
Michael A. Register, P.E., Executive Director
Florida Joint Legislative Auditing Committee
Florida Auditor General