

**SUWANNEE RIVER
WATER MANAGEMENT DISTRICT**

**FOLLOW-UP REPORT ON
DISTRICT CORRECTIVE ACTIONS
REGARDING
AUDITOR GENERAL AUDIT REPORT NO. 2017-215**

REPORT #18-01

December 29, 2017



Law, Redd, Crona & Munroe, P.A.

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Law, Redd, Crona & Munroe, P.A.
Certified Public Accountants

December 29, 2017

Governing Board
Suwannee River Water Management District
9225 CR 49
Live Oak, Florida 32060

Pursuant to Section 20.055(6)(h), Florida Statutes, as the District's Inspector General we are reporting on the status of the Suwannee River Water Management District corrective actions taken on the findings and recommendations in the Auditor General's Operational Audit Report No. 2017-215, dated June 2017. A copy of this report is also being filed with the Joint Legislative Auditing Committee.

If you have any questions regarding this report, please contact Richard Law, C.P.A. or Jon Ingram, C.P.A.

Sincerely,

Law, Redd, Crona & Munroe, P.A.

LAW, REDD, CRONA & MUNROE, P.A.

FOLLOW-UP ON AG REPORT NO. 2017-215

December 29, 2017

BACKGROUND

In June 2017, the Auditor General released Audit Report No. 2017-215, Operational Audit of the Suwannee River Water Management District (District). This report focused on selected District processes and administrative activities and contained four findings and recommendations for improvement.

Pursuant to Section 20.055(6)(h), Florida Statutes, the District's Inspector General is required to report to the Executive Director on the status of corrective actions taken on the Auditor General's report.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this follow-up engagement was to determine the status of corrective actions taken by the District to address the findings and recommendations in Auditor General Report No. 2017-215.

The scope of our follow-up activities focused on District actions taken to address findings and recommendations made by the Auditor General in the following categories:

- 1) Restricted Resources
- 2) Fund Balance Reporting
- 3) Budget Adoption, Reporting, and Monitoring
- 4) Vehicle Use

To achieve our objectives, we conducted the following procedures:

- 1) Examined Auditor General Report No. 2017-215, dated June 2017, to ascertain the findings, recommendations, and original District management responses thereto.
- 2) Made inquiries of and obtained representations from District management regarding the current status of corrective actions taken to address the Auditor General findings and recommendations.

FOLLOW-UP ON AG REPORT NO. 2017-215

- 3) Examined District policies, procedures, reports, and other documentation relating to management's corrective actions.

SUMMARY OF RESULTS

Our follow-up activities disclosed that District management has resolved Findings 2 through 4 of the Auditor General's report and has made and continues to make substantial progress toward correcting Finding 1. Please see Appendix A of this report for a detailed schedule of the current status reported by management regarding each of the Auditor General's findings and recommendations.

We wish to take this opportunity to thank District staff for their helpfulness and cooperation in this endeavor. If there are any questions regarding this report, please feel free to contact Richard Law, C.P.A. or Jon Ingram, C.P.A.

LAW, REDD, CRONA & MUNROE, P.A.

**Appendix A
Suwannee River Water Management District
Schedule of District Corrective Action for Auditor General Report No. 2017-215
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Finding 1: Restricted Resources

AG Finding Summary	The District had not established procedures to ensure that the use of restricted resources was appropriately authorized and monitored. As a result, certain District transfers of restricted resources from the Water Management and Lands Trust Fund represent questioned costs of \$22.5 million.
AG Recommendation	<p>District management should establish procedures to ensure that use of restricted resources is appropriately monitored and authorized. Such procedures should require:</p> <ul style="list-style-type: none"> • The establishment of a separate agency trust fund to account for timber sale proceeds, an interest revenue account for each restricted resource, a Preservation 2000 Fund to account for revenue derived from the disposal of lands acquired with Preservation 2000 moneys, and a Florida Forever Program Fund. • That appropriate monitoring be performed to ensure that timber sale proceeds remain available to the District in subsequent fiscal years to support land management appropriations; interest generated by a particular fund is added to that fund and utilized for the same purpose as said fund; revenue derived from the disposal of lands acquired with Preservation 2000 moneys are properly accounted for and deposited, as appropriate, into the Florida Forever Trust Fund within the FDEP; and unencumbered proceeds of the Florida Forever Program are timely returned to the Legislature for redistribution • Documentation to support the allowability of all WMLTF transfers and to demonstrate compliance with State law. <p>We also recommend that, should documentation not be available to support the allowability of the WMLTF transfers totaling \$22.5 million, District personnel take other appropriate action. Such other appropriate action may include restoring to the WMLTF:</p> <ul style="list-style-type: none"> • The \$13.3 million transfer made to the General Fund. • The \$6.8 million transfer made to the LCTF. Alternatively, if the source of the transfer was revenue derived from the disposal of lands acquired with Preservation 2000 funds, the District should submit this amount to the FDEP for deposit into the Florida Forever Trust Fund as required by State law. • The \$2.4 million transfer made to the LCTF. Alternatively, if the source of the transfer was unencumbered Florida Forever Program funds, the District should submit this amount to the Legislature for redistribution as required by State law.
Original District Response	<p>The District follows Section 373.1391, Florida Statutes, “Management of Real Property” as it pertains to lands titled to the District. This statute authorizes Water Management Districts to use land owned, managed and controlled by the District for multiple purposes including agriculture, silvicultural, water supply and recreational uses as well as for water resource development projects, water supply development projects, storm water management projects, linear facilities and sustainable agriculture and forestry. The statute further states that moneys received from the use of these lands be returned to the lead managing agency, which is the District, with no directive on how the funds must be used. Moneys received from District owned lands are, therefore, considered unrestricted.</p> <p>District management has established procedures to ensure that use of restricted resources is appropriately monitored and authorized. Special Revenue Funds are used to account for Land Management and Land Conservation activities. The Land Acquisition and Management Fund (Fund</p>

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13) accounts for annual land management appropriations, payment in lieu of taxes, timber sales and investment income generated on restricted funds. The Land Conservation Fund (Fund 10) accounts for Preservation 2000 and Florida Forever Programs, including acquisitions and disposal of lands and investment income generated on restricted funds.

Timber sales, investment interest, and other income generated by the use of District owned lands are used to achieve the goals set by the Governing Board to protect and maintain the quality and natural function of land, water and wetland systems.

Revenue derived from the disposal of lands acquired with Preservation 2000 Funds was properly accounted for and is the subject of an ongoing transfer of land to the Federal government subject to several memoranda of understanding. The District is reviewing accounting and land acquisition records for additional information and will consult with the Florida Department of Environmental Protection (FDEP) for direction and guidance on how to utilize these restricted funds.

The District is reviewing accounting and land acquisition records for additional information on proceeds from the Florida Forever Program and will consult with the Florida Department of Environmental Protection (FDEP) for direction and guidance on how to utilize these restricted funds.

Documentation supporting the allow-ability of the transfer from the Land Acquisition and Management Fund (Fund 13) is described below. Additionally, because each of these transfers is permissible, the District does not believe there are any questioned costs associated with this finding. Each transfer remains properly unrestricted or properly restricted based on its fund source and the fund to which it is assigned.

- Transfer of \$13.3 million to General Fund. An analysis of the revenues recorded in the Land Acquisition and Management Fund indicated a balance of \$13.3 million in unrestricted revenues available for any District purpose; and therefore, this balance was appropriate to be transferred to the General Fund. These funds were transferred to the General Fund as Committed Funds to be used by the District for Water Supply and Resource Planning, Land Management Operations, Research, Data Collection, Analysis and Monitoring and Cost Share Projects as authorized by the Governing Board. Audited financial statements and supporting accounting records were retrieved from an archived legacy financial system to provide documentation in support of this transfer and are available for inspection upon request.
- Transfer of \$6.8 million to Land Conservation Fund (Fund 10). This transfer represents Restricted Funds held by the District from the disposal of lands acquired with Preservation 2000 Funds. These Funds were to be used for the acquisition of other lands as they were identified. The restricted P2000 funds held by the District resulted from an ongoing parcel-by-parcel transfer of a certain acquisition to the Federal government over a ten-plus year period. The District is reviewing files associated with these transfers and will consult with FDEP for direction and guidance on how to utilize these restricted funds.
- Transfer totaling \$2.4 million to the Land Conservation Fund (Fund 10). The District is reviewing records assembled from an archived legacy financial system as well as actual documentation available in the Finance Department and contained in the Lands Database to determine if there are unencumbered Florida Forever Program funds. The District is working with the External Auditor to conduct additional analysis and will consult with FDEP for direction and guidance on how to utilize these restricted funds.

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<p>Status Per Management as of December 2017</p>	<p>The Governmental Accounting Fund that the AG refers to in this Finding as Water Management Land Trust Fund (WMLTF) is the District’s Special Revenue Fund - Fund 13 – Land Acquisition & Management Fund (LAMF). This Special Revenue Fund maintains accounting records for Water Management Lands Trust Fund, Florida Forever Trust Fund and other Trust Funds; state appropriations for Land Management, and Payment in Lieu of Taxes; timber sales, land management fees, acquisitions and disposals of land purchased with Save our Rivers (SOR), Preservation 2000, Florida Forever, Mitigation Funds, small intergovernmental grants, and investment income.</p> <p>As recommended, District management established procedures to ensure the use of restricted resources are appropriately monitored and authorized. The District has adopted a General Fund Reserve Policy and the Governing Board at its November 2017 meeting approved Directive 17-002 providing for Land Acquisition and Disposal of Surplus Lands Guidelines. The procedures have been updated to reflect this approved Directive.</p> <p>The District follows Section 373.1391, Florida Statutes, “Management of Real Property” for lands titled to the District. The District is committed in its compliance with all relevant statutes. The District’s use of Timber revenues is consistent with its General Counsel’s legal interpretation. Please note that an accumulated fund balance of timber sales and investment income was transferred to support environmental cost-share and water supply planning projects on a one-time basis. Presently, the District’s budgeted land management expenses exceed both its state appropriation for land management and timber revenues, thus all timber revenues are used to support operational land management purposes.</p> <p>The \$13.3 million that was transferred from Special Revenue Fund Fund 13 – LAMF to the District’s General Fund in 2014 was to support environmental Cost-Share Projects and Water Supply Planning on a one-time basis. The funds consisted of an accumulation of timber sales and investment income over a fifteen (15) year period. The Governing Board approved Fund Balance utilization for these projects. In 2017, the District created Special Revenue Funds for the cost-share and water supply planning projects and restored the balance of these Committed Fund Balances from the General Fund to Special Revenue Funds to appropriately monitor the use.</p> <p>The \$6.8 million transfer from Special Revenue Fund Fund 13- LAMF to Fund 10 – Land Conservation Fund (LCF) in 2014 was found to be incorrect. Revenue derived from the disposal of lands acquired with Preservation 2000 Funds have been reviewed in detail. Records for acquisitions, donations and sales have been reconciled back to the Lands Database and Annual Financial Report (AFR) by the CFO and the District’s External Auditor from Powell & Jones, CPA. It has been determined during this review process that Preservation 2000 funds in the amount of \$2,918,391 are due to be paid into the Florida Forever Trust Fund through Florida Department of Environmental Protection (FDEP). This transaction will be completed upon FDEP Review and Governing Board approval. The balance of \$3,843,363 will be transferred back to Fund 13 – LAMF upon completion of the FY 2017 audited annual financial report.</p> <p>The \$2.4 million transfer from Special Revenue Fund Fund 13- LAMF to Fund 10 – LCF in 2014 was also found to be incorrect. Upon further review and analysis, there were no Florida Forever funds on hand at the District as of September 30, 2014. These funds will be transferred back to Fund 13-LAMP upon Governing Board approval and the completion of the FY 2017 audited annual financial report.</p> <p>In 2013-14, FDEP was holding a Florida Forever Trust Fund balance of \$2,062,631 for the District. The initial review by the District’s external auditor thought these funds were on hand at the District, when in fact, they were on hand at FDEP. The District drew down the balance of the Florida Forever Funds in 2015. The District acquired property for \$576,700 in 2015 and the balance of \$1,485,930 is reported as unearned revenue</p>
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	on the District's records. These remaining funds will be encumbered for an acquisition that will be approved by the Governing Board at the December 2017 meeting.
Finding 2: Fund Balance Reporting	
AG Finding Summary	District financial reporting procedures need improvement to ensure that committed and other fund balance accounts are properly reported.
AG Recommendation	The District should provide appropriate fund balance classification training to District personnel who are responsible for AFR preparation. Additionally, District management should ensure that amounts reported in the respective fund balance classifications on the AFR and the related note disclosures are properly supported by District records and meet the GASB-defined classification criteria.
Original District Response	<p>The District has re-trained personnel on fund balance classifications as defined in Governmental Accounting Standards Board (GASB) Statement No. 54 and has developed policies and procedures addressing the authority for establishing an Economic Stabilization Reserve as well as the conditions under which these committed funds may be used. The Economic Stabilization Reserve will be reviewed annually for the next fiscal year prior to the end of the current fiscal year by inclusion in the Governing Board resolution establishing Committed Fund Balance amounts. The District will ensure these Reserves are properly disclosed in the notes to the financial statements beginning with the 2016-2017 fiscal year.</p> <p>The District is working closely with the external auditors to ensure all funds are properly classified on the Annual Financial Report (AFR) and clearly reconciled prospectively.</p>
Status Per Management as of December 2017	The District, along with its External Auditor from Powell & Jones, CPA have established a process to ensure Fund Balance classifications are identified correctly and appropriate balances and note disclosures are represented in the AFR for FY 2017. The District personnel responsible for AFR preparation attended the Florida Governmental Finance Officers Association Conference in October 2017 and attended sessions that reviewed fund balance classifications as well as other governmental accounting training sessions.
Finding 3: Budget Adoption, Reporting, and Monitoring	
AG Finding Summary	District budgetary controls continue to need improvement. For example, the District budget module, used to monitor budget-to-actual expenditures, did not always agree with the amounts presented on the District annual financial report and did not prevent the District from over expending certain budget categories.
AG Recommendation	<p>To ensure that budgetary controls are properly implemented and operate effectively, applicable District personnel should receive training regarding the budget adoption and amendment processes. Additionally, District management should enhance budgetary monitoring controls to ensure that:</p> <ul style="list-style-type: none"> • Both the respective budget module amounts and the amounts reported on the AFR agree with the Board-approved budget amounts. • Budget amounts are timely amended by the Board to avoid over expenditure.

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	<ul style="list-style-type: none"> The WMLTC and LAF individual special revenue fund budget amounts are appropriately accounted for and documented to support the budget amounts presented on the AFR.
Original District Response	<p>A new budget review and monitoring process has been put in place to assure the Board Approved Original (Adopted) Budget and Final (Amended) Budget agree with the budget reported on the Annual Financial Report (AFR) and loaded in the District's Accounting System Budget Module. Every October, the Budget Analyst and Chief Financial Officer (CFO) will compare the original budget to the budget uploaded to the Accounting System Budget Model for variances and make corrections as needed. When the Finance Department receives proper approval of budget amendments, include Governing Board Resolutions, State approval letter and budget amendment details, the budget is updated in the District's Accounting System Budget Module, and all reports are reviewed for accuracy. Financial reports are also updated at this time to include budget amendments. At the end of the fiscal year, the CFO will ensure that the Annual Financial Reports reflect the Board approved budget amounts for all Funds, including the General Fund and Special Revenue Funds.</p> <p>The District has recently created the position of Chief Financial Officer. This position has assumed responsibility for the District's budget monitoring control process of reviewing and certifying monthly financial reports, including budget versus actual reports, with Division Directors. These monthly discussions include the risks of expenditures exceeding budgeted amounts and available resources. If budget amendments or re-alignments are needed, the Chief of Staff is informed and steps are taken to resolve issues as they arise in compliance with budget guidance issued by FDEP.</p>
Status Per Management as of December 2017	<p>The District will ensure the accuracy that the adopted budget and any amendments in the accounting system and agreeing with the amounts are reported on the AFR. Financial Reports are certified monthly by Division Directors. Budget variances are reviewed during this review process. Any budget amendments and/or re-alignments/modifications are noted and taken to the Governing Board for approval as needed.</p>
Finding 4: Vehicle Use	
AG Finding Summary	<p>As similarly noted in our report No. 2014-129, the District needs to strengthen controls over District-owned vehicles.</p>
AG Recommendation	<p>District management should enhance the <i>Vehicle Usage Policy</i> to require that supervisory review and approval be obtained and documented on vehicle log forms. In addition, District management should enhance vehicle usage controls, including monitoring controls, to ensure that:</p> <ul style="list-style-type: none"> Vehicle log forms are complete and contain all the required information. Employees obtain documented preauthorization to drive vehicles home overnight. Division-assigned vehicles are used at least 15 days per month as required.
Original District Response	<p>The District will re-train staff on the <u><i>Vehicle Usage Policy</i></u> and how to properly complete the vehicle log form and on the requirement for preauthorization to drive a vehicle home overnight. The <u><i>Vehicle Usage Policy</i></u> will be updated and provided to all staff as part of the re-training.</p> <p>The District is considering using a software-based solution for processing and maintaining vehicle forms and information. To strengthen controls over District-owned vehicles, District staff whose duties include Fleet Management will audit random vehicle logs monthly to ensure the forms are</p>

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	<p>being completed correctly and proper authorization has been received. Additionally, the District has re-assigned all division-assigned vehicles to the general vehicle pool.</p>
Status Per Management as of December 2017	<p>The <u>Vehicle Usage Policy</u> has been updated to remove the 15 day per month usage requirement and is available to all staff on the District's web portal. The District reviewed the <u>Vehicle Usage Policy</u> at the December 2017 staff meeting and re-trained how to properly complete the vehicle log form and on the requirement for preauthorization to drive a vehicle home overnight.</p> <p>To strengthen controls over District-owned vehicles, District staff whose duties include Fleet Management will review vehicle logs monthly to ensure the forms are being completed correctly and proper authorization has been received. The District is evaluating various software based solutions for processing and maintaining vehicle usage.</p>