



South Florida Water Management District

AUDIT & FINANCE COMMITTEE AGENDA

December 8, 2022

12:00 PM

District Headquarters - B-1 Auditorium

3301 Gun Club Road

West Palm Beach, FL 33406

FINAL

Committee Members:

Jay Steinle, Chairman

Cheryl Meads

Jacqui Thurlow-Lippisch

1. Call to Order - Jay Steinle, Chairman
2. Approval of the Minutes for the June 9, 2022 Meeting
3. Summary of Investments as of October 31, 2022 - Lucie Weinberg, Treasurer
4. Inspector General Audit Reports - Tim Beirnes, Inspector General
 - Audit of Environmental Resource Permit Enforcement
5. Proposed Audit Plan for Fiscal Year 2022-2023 and Long-Term Audit Plan for Fiscal Years 2024-2028 - Tim Beirnes, Inspector General
6. External Quality Control Review of the Office of the Inspector General Report - Tim Beirnes, Inspector General
7. Public Comment
8. Adjourn

Draft presentations and backup documents:

Agenda Item Background:

[03 Weinberg Presentation](#)

[04 Beirnes Presentation](#)

[05 Beirnes Presentation](#)

[06 Beirnes Presentation](#)



Investment Portfolio as of October 31, 2022

Audit and Finance Committee Meeting December 8, 2022



Lucie Weinberg
Treasurer
Administrative Services Division



Market Environment

- The Fed increased rates six times this year by 3.75% in total (3.75%-4.00% currently from 0.00%-0.25% in January 2022)
- Cost of living increases, tightening financial conditions and other current global affairs weigh heavily on economic outlook
- Real home prices expected to fall due to highest inflation in decades
- World economy is slowing more than anticipated
- Global growth expected to decrease to 2.1% in 2023 (3.3% in 2022 and 6% in 2021)
- Global inflation expected to decrease to 6.5% in 2023 (8.8% in 2022 and 4.7% in 2021)
- Wage growth grew to its highest in pandemic year and labor market has been strong; however, still not on par with highest inflation in decades, causing financial stress on households
- Tightening monetary policy plans to stay the course to restore price stability and decrease inflation
- 5 Year US Agency is at 5.5% vs 1.50% this time last year
- Ginnie Mae (GNMA) Mortgage-Backed Securities (MBS) is at 6.7% vs 2.15% this time last year

Investment Strategy

- Rates spiked by 3.75% this year and new ad valorem funds will be invested in December/January thus earning higher interest income
- If we invest \$100M of new money, will earn \$6M conservatively (on an annual basis)
- In FY2021-22, we liquidated \$120M (mostly from Money Markets) to fund operating expenses as cash balances are being spent down
- Portfolio end of FY2020-21 was \$524M and FY2021-22 was \$395M (unaudited)
- Operating account yield increased to 1% as of 9-01-2022
- Yield on Cash & Investments is at 1.5% as of 9-30-2022
- Interest earnings through 9-30-2022 were \$5.1M vs our estimated earnings of \$4M (Budgeted \$3.8M)

Key Interest Rates

Investment Type	June 30, 2022	September 30, 2022
Federal Reserve Funds	1.50%-1.75%	3.00%-3.25%
3-Month T Bill	1.72%	3.33%
3-Month Libor	1.9703%	3.45108%
2-Year Treasury	2.92%	4.22%
5-Year Treasury	3.01%	4.06%
State Pool	1.25%	2.61%

FY2021-22 Through September 30, 2022 (unaudited)

- **\$5.1M Investment Earnings**
- **1.54% Book Yield (Investments Only)**
- **1.14% Yield (Cash & Cash Equivalents)**
- **1.5% Yield (Cash & Investments)**
- **\$49.2M Cash & Cash Equivalents Balance**
- **\$345.8M Investment Balance**
- **87.54% Invested***
- **12.46% Cash & Cash Equivalents***

***See breakdown on next slide**

Current Portfolio Breakdown \$395 Million

	PAR VALUE (million)	CURRENT YIELD	% PORTFOLIO
Cash & Cash Equivalents/Short Term Cash (12%)			
Operating Account	\$45.6	1.00%	11.54%
Federated MM* <small>Money Market</small>	\$2.64	3.00%	0.67%
Florida Prime (SBA*) <small>*State Board of Administration</small>	\$1.03	2.61%	0.26%
Invested/Long-Term Investments (88%)			
U.S. Agencies	\$138.5	1.27%	35.05%
MBS* <small>*Mortgage Backed Securities</small>	\$207.3	1.72%	52.48%

Benchmark Comparisons September 30, 2022

Cash & Cash Equivalents/Short Term Cash

<u>Entity</u>	<u>SFWMD</u>
SFWMD Book Yield	1.14%
S&P LGIP Index	2.22%

Invested/Long-Term Investments

<u>Entity</u>	<u>Yield</u>	<u>Duration</u>
SFWMD Yield	1.54%	4.32
1-3 Year Treasury Index	4.30%	1.83
Southwest Florida Water Management District	1.77%	1.55
St. Johns River Water Management District	1.29%	2.48

**Lower cash yield due to operating account "cash drag" at 1% yield*

October 2022 Summary

- **\$93.2M Cash & Cash Equivalents Balance**
- **\$342.5M Investment Balance**
- **1.44% (Cash & Investments)**
- **79% Invested**
- **21% Cash & Cash Equivalents**
- **\$435.7M Total Portfolio Balance**
- **Liquidated \$20M in bonds in October to cover operating expenses**
- **Sold US Agency bonds as they would have the least income impact on the portfolio**
- **Still recognized a \$430K loss to income as we had to sell at a steep discount in this market environment**
- **We will recover this amount as we reinvest new monies at much higher yields than we invested at in FY2021-22**

References

- **Raymond James' Investment Portfolio Analysis**
- **RW Baird Economic Updates**
- **RBC Economic Updates**
- **St. John's River Water Management District Economic Update & Portfolio Strategy Review**
- **Southwest Florida Water Management District Quarterly Investment Report**
- **WWW.IMF.ORG**



Discussion



Audit of the ERP Enforcement Process

Report #21-17



Tim Beirnes
Inspector General
Audit and Finance Committee
December 08, 2022

Background

An Environmental Resource Permit is required for development or construction activities to prevent flooding, protect the water quality of Florida's lakes and streams from stormwater pollution, and protect wetlands and other surface waters.

The District is mandated by provisions in Chapter 373, F.S., to provide periodic compliance inspections for ERPs.

The Environmental Resource and Regulatory Support Bureau is tasked with providing compliance and enforcement services relating to both permitted and non-permitted projects.

Objective Scope and Methodology

Our objective was to determine whether the Environmental Resources and Regulatory Support Bureau's enforcement activities ensure compliance with state laws, regulations, and individual ERP permits.

Audit Results

- **Overall, the controls over the ERP Enforcement process appear to be operating as designed.**
- **Although the ERP staff has been cross-trained to assist with the increasing enforcement workload, limited ERP staff resources continue to be a challenge.**
- **Additional technological solutions may be available to enhance staff productivity.**
- **We made two recommendations regarding our audit results.**
- **Management concurred with the recommendations.**

Questions & Discussion

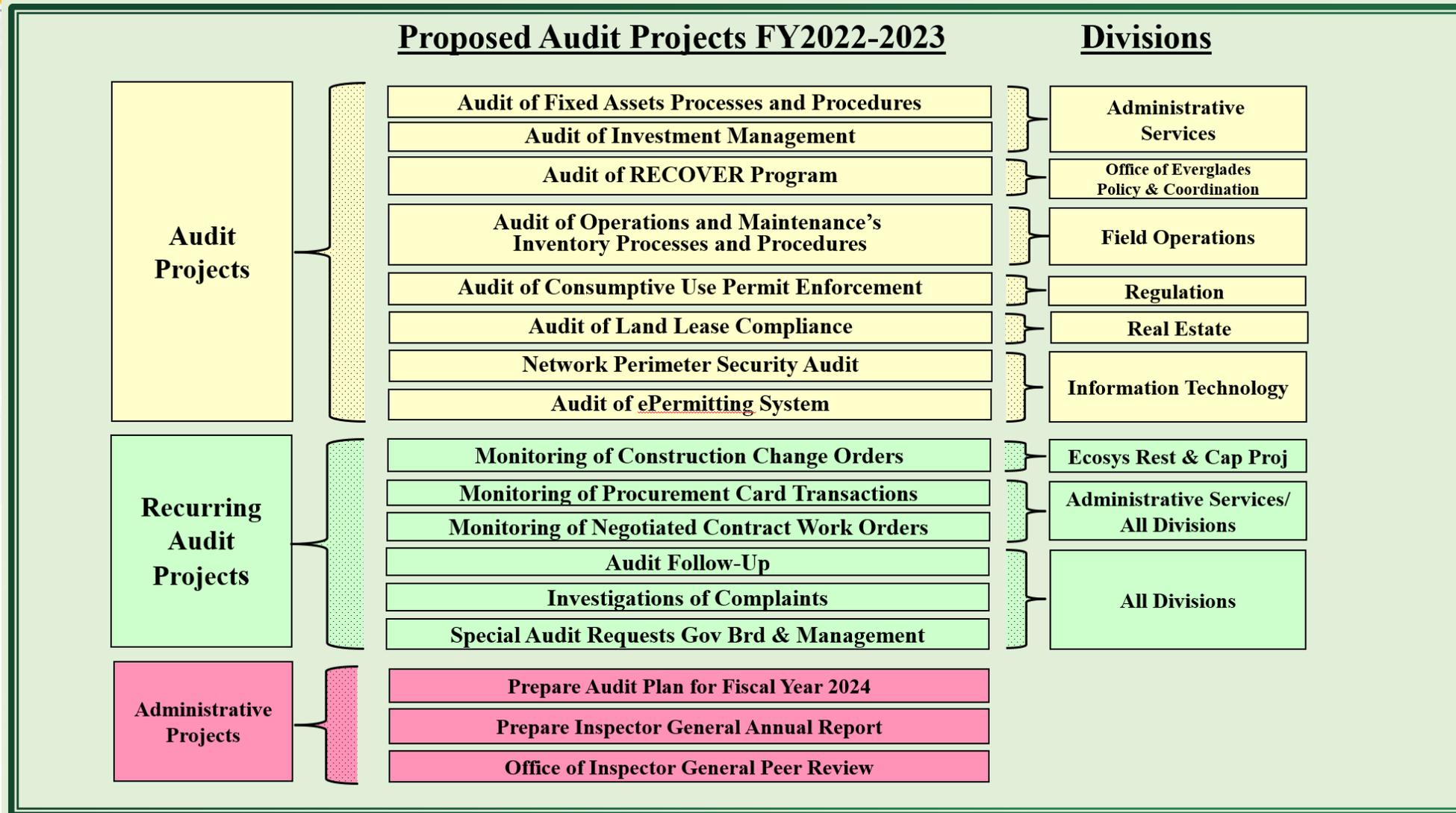


Proposed Audit Plan for FY 2022-2023 and Long-Term Audit Plan for FY 2024-2028

Tim Beirnes
Inspector General
December 8, 2022

Planning Approach

- **Review Current Strategic Plan**
- **Review FY 2022-2023 Budget**
- **Identify those programs, activities and functions that we consider to present potential risk to the District**
- **Consider time since programs were last audited**
- **Obtain input from executive management and the Governing Board**



Audit of Fixed Assets Processes and Procedures

Objective:

- **Provide an independent review of the District's asset management processes and procedures for fixed assets; including a comparison of the District's procedures to industry best practices in order to identify potential improvements.**

Audit of Investment Management

Objectives:

- **Determine whether adequate internal controls related to investment management are in place and functioning properly to ensure that investment purchases are made in accordance with the Investment Policy and properly recorded in District financial records.**

Audit of RECOVER Program

Objectives:

- **Review the original agreement for RECOVER and determine where the District and U.S. Army Corps of Engineers are today in terms of expenditures and expected deliverables and the future course for the program.**

Audit of Operations and Maintenance's Inventory Processes and Procedures

Objectives:

- **Assess whether Operations and Maintenance's internal controls over consumable inventory are adequate and functioning properly.**

Audit of Consumptive Water Use Permit Compliance (CUP) Enforcement

Objectives:

- **Determine whether Regulation's Water Use Bureau is sufficiently ensuring that permit holders are complying with the limiting conditions of their water use permits and whether compliance with the limiting conditions specified in water use permits are sufficiently monitored and enforced.**

Audit of Land Lease Compliance

Objectives:

- **Assess the effectiveness of the monitoring process in ensuring that lessees adhere to lease provisions.**

Network Perimeter Security Audit

Objectives:

- **Provide an independent assessment relating to the effectiveness of the network perimeter security and its alignment with the IT security architecture and policy.**
- **Provide an evaluation of the IT function's preparedness in the event of an intrusion.**
- **Identify issues that affect the security of the enterprise's network.**
- **Review the Identity Management System to ensure that it is fulfilling its intended purpose and that administrative controls are sufficient.**

Audit of the District's ePermitting System

Objectives

Determine whether:

- **The system provides the desired operational and business needs.**
- **Computer physical assets are adequately safeguarded.**
- **Technical administrative support is adequate.**
- **User needs are being properly supported and measured.**
- **The system contains adequate access controls to prevent unauthorized access.**

Monitoring of Construction Contract Change Orders

Objective:

On an on-going basis, periodically verify cumulative change order amounts as a percentage of original construction contracts and compare such to industry averages.

Monitoring of Procurement Card Transactions

Objective:

Periodically examine procurement card transactions to ensure they are:

- Appropriate District expenditures**
- Contain adequate supporting documentation**
- Properly recorded in the accounting records**

Monitoring of Negotiated Contract Work Orders

Objective:

- Periodically select a sample of contracts to ensure that work orders are properly negotiated in a manner that maintains the District's best interest

Other Audit Projects

Objective:

- **Audit Follow-Up**
- **Investigate Whistle-Blower Complaints**
- **Audit Requests from Governing Board and District Management**
 - **Our Office periodically receives requests for audits and investigations from the Governing Board and Executive Management on an as needed basis**

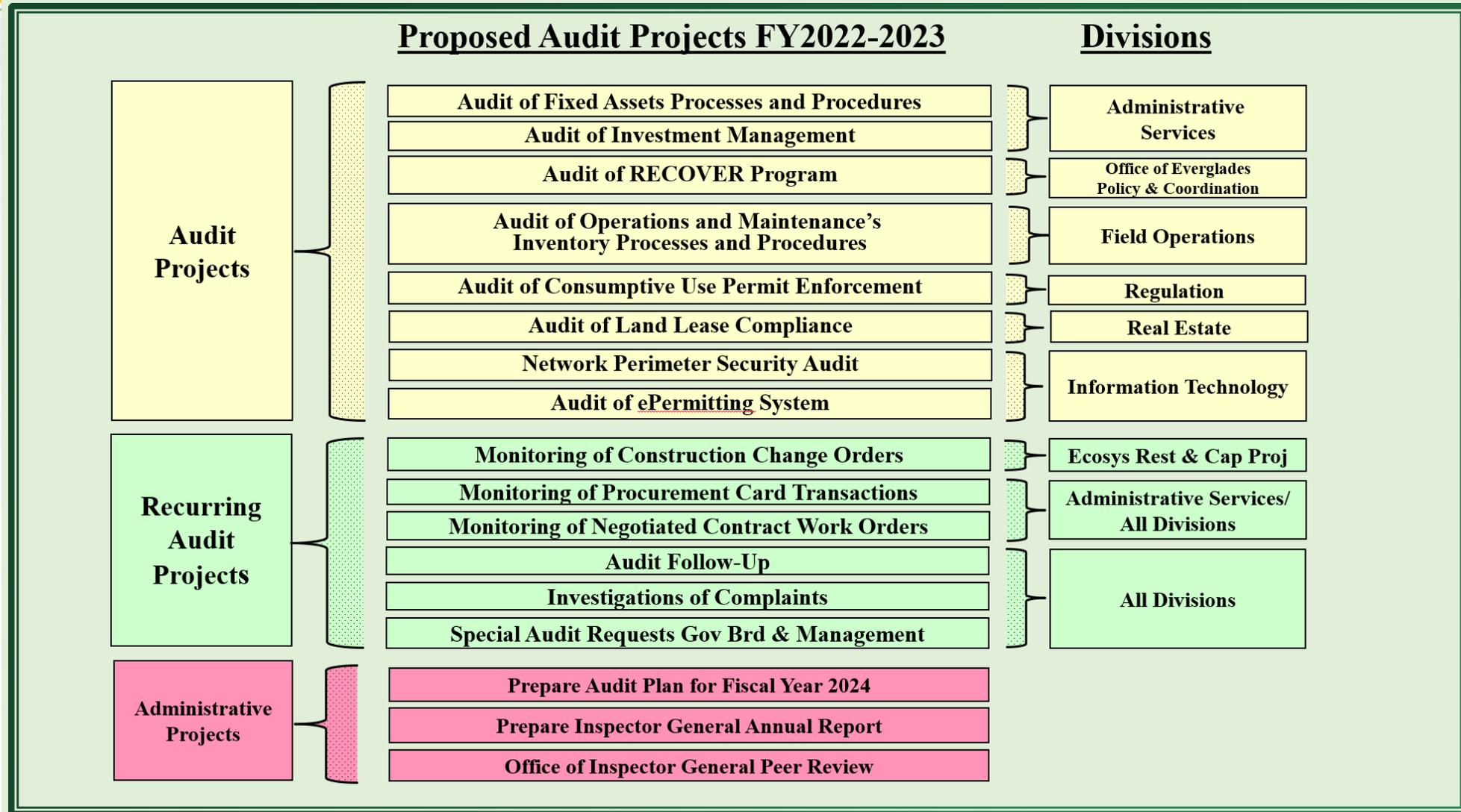
Administrative Projects

- **Audit Plan for Fiscal Year 2024**
- **Office of Inspector General Annual Report**

Long-Term Audit Plan FY 2024-2028

- **Designed to provide sufficient audit coverage over time to reach all significant programs, activities, and functions.**
- **Provides a listing of proposed audit projects and associated audit objectives for the next five years.**
- **Audit cycle time between audits for the audit population varies based on risk assessment for the audit area.**
- **Five-year plan updated annually.**
- **Provides flexibility to incorporate additional audit subjects to meet the Governing Board's and management's needs.**

Discussion & Questions ?



Recommendation

Recommend Approval of the Audit Plan for Fiscal Year 2022-2023 and Long-Term Audit Plan for Fiscal Years 2024-2028.

Office of Inspector General

Peer Review Report

For the Three-Year Period
Ended December 31, 2021



Presented By:
Tim Beirnes
Inspector General
Audit & Finance
Committee
December 8, 2022

Peer Review Requirement

- Florida Statutes require Inspectors General to perform audits in accordance with *Government Auditing Standards* promulgated by the Comptroller General of the United States
- One of those standards requires an external independent peer review once every three years to assess the audit organization's conformance with applicable professional standards
- Our three-year period ended December 31, 2021
- Peer Review performed during the week of June 13th

Association of Local Government Auditors (ALGA)

- Review was performed through the ALGA peer review program. ALGA's Mission is to:
 - Bring together local government professionals from around the world whose primary duties involve financial or performance (operational) auditing
 - Provide opportunities for interchange of information and ideas and discussion of issues among local government audit professionals
 - Provide Continuing Professional Education in governmental auditing
 - Improve the quality of auditing in local government
 - Encourage and uphold the highest standards of professional ethics

ALGA Peer Review Program

- ALGA Regional Peer Review Coordinator arranges the Peer Review team
- Peer Review team members:
 - Richard Springsteen, DFW International Airport, Internal Audit
 - Micheal Jones, City of Atlanta – City Auditor’s Office
- Our Office agrees to reciprocate by offering our staff to perform Peer Reviews for other governmental organizations. IG staff have participated in Peer Reviews for the following governments:
 - City of Atlanta, Georgia
 - Palm Beach County, Florida
 - Miami-Dade County, Florida
 - Orange County, Florida
 - Hillsborough County Aviation Authority (Tampa Intl Airport)
 - City of Chattanooga, Tennessee
- The organization being reviewed pays travel expenses

Review Results

- The peer review process can result in one of three levels of compliance:
 - Pass,
 - Pass with Deficiencies,
 - Failure.

- The Inspector General's Office received a "Pass" compliance report.

Peer Review Report



Association of Local Government Auditors

June 16, 2022

Mr. J. Timothy Beirnes, CPA, MBA, CISA - Inspector General
South Florida Water Management District
3301 Gun Club Road
West Palm Beach, Florida 33406

Dear Mr. Beirnes,

We have completed a peer review of the South Florida Water Management District Office of the Inspector General for the period January 1, 2019 through December 31, 2021. In accordance with generally accepted government auditing standards peer review requirements, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing the Inspector General and auditing staff to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case but does imply adherence in most situations. Organizations can receive a rating of pass, pass with deficiencies, or fail. The South Florida Water Management District Office of the Inspector General has received a rating of pass.

Further, based on the results of our review, it is our opinion that the South Florida Water Management District Office of the Inspector General's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for audits during the period January 1, 2019 through December 31, 2021.

Richard Springsteen, CISA, CPA, CFE
Team Leader
DFW International Airport

Michael D. Jones, CGAP
Team Member
City Auditor's Office, City of Atlanta

“Based on the results of our review, it is our opinion that the South Florida Water Management District Office of Inspector General’s internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for audits during the period January 1, 2019 through December 31, 2021.”

Questions and Comments