



South Florida Water Management District

AUDIT & FINANCE COMMITTEE AGENDA

April 13, 2023

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 December 8, 2022 Meeting
3. Summary of Investments as of December 31, 2022 - Lucie Weinberg, Treasurer
4. Inspector General Audit Reports - Tim Beirnes, Inspector General
 - Audit of Fleet Maintenance and Operations
 - Audit of Governmental Accounting Standards Board Statement No. 87 Implementation
 - Construction Change Order Monitoring Report
5. Public Comment
6. Adjourn

Draft presentations and backup documents:

Agenda Item Background:

[3 Weinberg Presentation FY23 Investment Update Through 12/31/2022](#)

- 4A Beirnes Presentation Fleet Maintenance Operations
- 4B Beirnes Presentation GASB Statement No. 87
- 4C Beirnes Presentation Change Orders



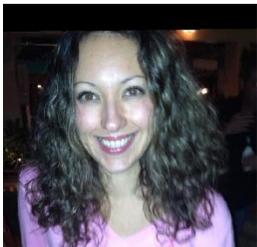
Investment Portfolio as of December 31, 2022

Audit and Finance Committee Meeting

April 13, 2023

Lucie Weinberg
Treasurer

Administrative Services Division



Market Environment

- Rates increased four times since October 31, 2022: November 3.75%-4.00%; December 4.25%-4.50%; February 4.50%-4.75%; and March 4.75%-5.00%
- Current Fed Funds rate is 4.75%-5.00%
- US growth expected to decrease to 1.4% in 2023 and 1.00% in 2024 (IMF.org)
- Global growth expected to decrease from 3.4% in 2022 to 2.9% in 2023 and slight increase to 3.1% in 2024 (IMF.org)
- Global inflation expected to decrease from 8.8% in 2022 (annual average) to 6.6% in 2023 and 4.3% in 2024 (IMF.org)
- World economy is set to grow at the third weakest pace in 3 decades, yet high core inflation is still persistent however on a downward trajectory
- Fed is slowing down their rate increases – last 2 increases in February & March 2023 were 25 basis points (bps) vs 50 bps increase in December 2022 and 75 bps increases in June, July, September & November 2022
- However, continued tight labor markets could translate to stronger wage growth, higher food/gas/oil prices which would in turn require a tighter monetary policy

Investment Strategy

- **Invested \$110M into short term money market funds (MMK)**
- **MMK funds are currently earning an average yield of 5%**
- **Earning average of \$458K per month on MMK funds**
- **MBS dropped to 40% from 52% last quarter**
- **Operating Account at 13% post MMK investments**
- **Goal is to maintain minimum daily balance in Operating Account to cover increased expenditures (project costs)**
- **Yield on Cash & Investments is at 1.36% as of 12-31-2022 (Note that post investment yield as is 2.22%)**
- **Interest earnings through 12-31-2022 are \$1.8M and through 2-28-2023 are \$3.5M**
- **Budgeted Interest Earnings for FY2023 are \$3.8M**

Key Interest Rates

Investment Type	December 31, 2022	March 31, 2023
Federal Reserve Funds	4.25%-4.50%	4.75%-5.00%
3-Month T Bill	4.42%	4.85%
2-Year Treasury	4.41%	4.06%
5-Year Treasury	3.99%	3.60%
10-Year Treasury	3.88%	3.48%
State Pool	4.30%	4.84%

FY2023 Through 12-31-2022

- **\$1.8M Investment Earnings**
- **1.60% Book Yield (Investments Only)**
- **1.05% Yield (Cash & Cash Equivalents)**
- **1.36% Yield (Cash & Investments)**
- **\$235M Cash & Cash Equivalents Balance**
- **\$319M Investment Balance**
- **58% Invested***
- **42% Cash & Cash Equivalents***

*See breakdown on next slide

12-31-2022 Portfolio Breakdown \$554 Million

	PAR VALUE (million)	CURRENT YIELD	% PORTFOLIO
Cash & Cash Equivalents/Short Term Cash (42%)			
Operating Account	\$231.6M	1.00%	41.79%
Federated MM* Money Market	\$2.66M	4.36%	0.48%
Florida Prime (SBA*) *State Board of Administration	\$1.04M	4.30%	0.19%
Total:	\$235.3M		
Invested/Long-Term Investments (58%)			
U.S. Agencies	\$118.5M	1.36%	21.36%
MBS* *Mortgage-Backed Securities	\$200.7M	1.72%	36.18%
Total:	\$319.2M		

Benchmark Comparisons 12-31-2022

Cash & Cash Equivalents/Short Term Cash

<u>Entity</u>	<u>SFWMD</u>
SFWMD Book Yield	1.05%
S&P LGIP Index	3.91%

Invested/Long-Term Investments

<u>Entity</u>	<u>Yield</u>	<u>Duration</u>
SFWMD Yield	1.58%	4.41
St. John's River Water Management District	1.55%	2.48
Southwest Florida Water Management District	2.69%	1.35
1-3 Year Treasury Index	4.49%	1.75

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

Post Investment Portfolio Breakdown \$495 Million

	PAR VALUE (million)	CURRENT YIELD	% PORTFOLIO
Cash & Cash Equivalents/Short Term Cash (36%)			
Operating Account	\$64.5M	1.00%	13.05%
Federated MM* Money Market	\$57.7M	4.61%	11.66%
Florida Prime (SBA*) *State Board of Administration	\$56.1M	4.77%	11.34%
Total:	\$178.3M		
Invested/Long-Term Investments (64%)			
U.S. Agencies	\$118.5M	1.36%	23.92%
MBS* *Mortgage Backed Securities	\$198.2M	1.72%	40.03%
Total:	\$316.7M		

3-01-2023 Post Investment Summary

- **\$178.3M Cash & Cash Equivalents Balance**
- **\$316.7M Investment Balance**
- **2.22% Yield (Cash & Investments)**
- **64% Invested**
- **36% Cash & Cash Equivalents**
- **\$495M Total Portfolio Balance as of 3-01-2023**
- **The net impact on the portfolio resultant from operating expenditures is \$59M**
- **The invested balance did not change the total portfolio balance**
- **Cash yield (Including Operating Account) increased from 1.05% to 3.35% post MMK investments**
- **\$367K in additional monthly interest earnings on MMK funds (5% yield)**



Discussion



Audit of Fleet Maintenance Operations

Project # 21-10

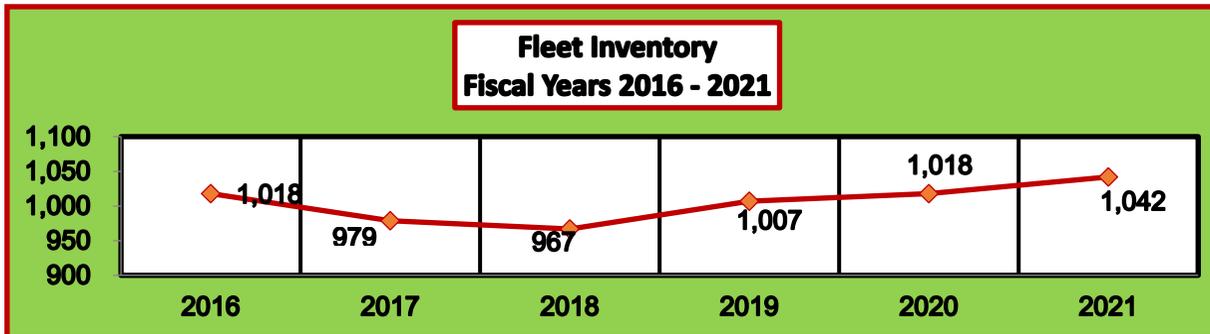
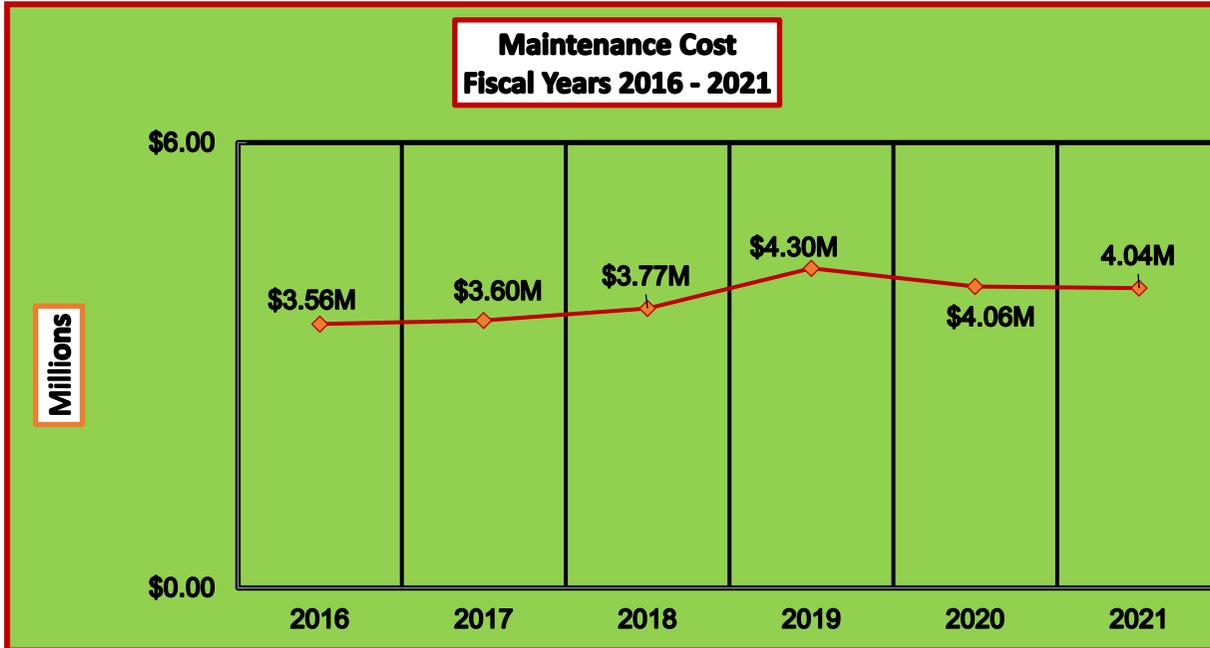


Tim Beirnes, Inspector General
Audit and Finance Committee
April 13, 2023

Background

District's Fleet Composition, as of September 30, 2021			
Type	Class	Examples of Vehicle/Equipment	Total
On-Road	<i>Light Trucks</i>	½-ton, ¾-ton, and 1-ton pickups - closed and extended cabs, utility body, compact and mid-size SUVs, cargo vans	476
	<i>Medium Trucks</i>	1½-1¾-ton trucks - utility body, utility body with crane, and flatbed	82
	<i>Heavy Trucks</i>	Dump trucks - 12 to 20 cubic yards, 2½-ton bucket, flatbed, and boom trucks, semi-tractor trucks	66
	Total On-Road		624
Off-Road	<i>Construction Equipment</i>	Bulldozers, frontloaders, graders, forklifts, excavators, cranes	97
	<i>Marine</i>	Boats, airboats, towboats, and outboard motors	135
	<i>Trailers</i>	Utility, cargo, and flatbed trailers	198
	<i>Tractors</i>	Tractors, tractors with boom mowers	23
	Total Off-Road		453
Total			1,077

Background



Objectives

Determine whether there was an adequate process in place to ensure fleet maintenance operations were performed effectively and efficiently.

Overall Audit Results

- **The District had a process in place to ensure fleet maintenance operations were performed effectively and efficiently.**
- **Vendor selections appeared justified.**
- **Although a process was in place to ensure preventive maintenance was performed on vehicle/equipment, there were no written policies outlining the timeframe within which preventive maintenance should be completed.**



Audit Results

- **Majority of vehicle/equipment preventive maintenance was performed within 40 days of the planned work order date.**
 - ❑ 3,292 of 4,289 (77%) PMPL work orders were completed within 40 days from the planned date
 - ❑ 997 (23%) were completed 41 or more days after the planned date

- **Reasons for late preventive maintenance work order completion:**
 - ❑ Staff vacancies
 - ❑ Part shortages
 - ❑ COVID pandemic
 - ❑ Maintenance scheduling issues with various bureaus/sections

Audit Results

Routine Work Orders Incorrectly Classified

- There were instances routine work orders were incorrectly classified as unplanned work orders.

Time Charged to Work Orders Appear Reasonable

- Fleet technicians charged 77% to 99% of time worked to work order-related activities and 1% to 23% of time worked was charged to cost centers.

Audit Results

Planned vs. Unplanned Work Orders

- **Maintenance goal for fleet work orders:**
 - 80% Planned (preventative maintenance)
 - 20% Unplanned (emergency repairs)
- **Actual Results:**
 - 58% Planned (preventative maintenance)
 - 42% Unplanned (emergency repairs)
- **The District's aging fleet is a significant impediment to achieving the 80/20 goal**
- **20% of the District's fleet is past its useful life based on age, mileage, and operating hours**



Audit Recommendations

- **We made 12 audit recommendations**
- **Management concurred with all the recommendations**

Governing Board Discussion



Discussion & Questions



Audit of Governmental Accounting Standards Board (GASB) Statement 87 Implementation

Report #22-21



Tim Beirnes
Inspector General
Audit and Finance Committee
April 13, 2023



BACKGROUND



- **GASB Statement No. 87 Issued June 2017 - Titled Leases**
- **Originally effective for reporting periods beginning after December 15, 2019**
- **Due to the COVID-19 pandemic, the implementation date extended to fiscal years beginning after June 15, 2021**
- **Thus, the District implementation date was for the fiscal year beginning October 1, 2021 and ending September 30, 2022**
- **GASB established significant changes in the methods of accounting and financial reporting for leases by both lessees and lessors**

BACKGROUND



➤ GASB 87 Definition of a Lease:

“A contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction”

- Does not apply to intangible assets, biological assets, and inventory of service concession arrangements
- Provides exclusion for some leases, such as:
 - Short-term leases of 12 months or less
 - Unilateral cancellation provisions
 - Zero, or nominal dollar leases

BACKGROUND



- **GASB 87 requires the lessee to treat a lease as a liability and lessor treat it as an asset.**
- **Lease liability is measured at the present value of payments expected to be made during the lease term**
- **The value of the lessee's right to use the property is recognized as an offsetting asset**
- **A number of factors are considered in measuring the present value of the lease payments**



AUDIT OBJECTIVE



- **Assess whether the requirements of GASB 87 have been adequately addressed to ensure District leases, as defined by GASB 87, are fairly stated in the District's financial statements for the Fiscal Year Ended September 30, 2022**

AUDIT RESULTS



- **The process developed for reviewing District contract agreements was sufficiently designed to capture the relevant data from District agreements to ensure reasonable assurance of complying with the provisions of GASB 87.**
- **Essential agreement data pertinent to GASB 87 was sufficiently captured in the Excel spreadsheets developed by Accounting staff.**
- **Methodology used to establish the discount rates appears reasonable and appropriately reflected the criteria contained in GASB-87.**
- **The report did not contain any audit recommendations.**



DISCUSSION



Questions & Comments



Monitoring Review of Construction Change Orders

Report #22-23



Tim Beirnes
Inspector General
Audit and Finance Committee
April 13, 2023





Review Objectives



- **Review Period: March 19, 2022 through September 30, 2022**
- **Assessed whether change orders negotiated during the Review Period were negotiated in accordance with contract terms and conditions**
- **Verified cumulative change order amounts as a percentage of original contract amounts**
- **Compared change order percentage to industry benchmarks**
- **Identified all construction contract change orders the Governing Board authorized**



Review Scope



- **32 change orders were executed during the Review Period for a total of \$105,597,264**
- **Examined documentation for 27 of the 32 change orders**
- **Identified all Governing Board construction change order resolutions approved during the three fiscal years 2020 through 2022**



Review Results



- All 27 change orders examined were accurately input into eBuilder, authorized appropriately, and accurately calculated
- The current change order average percentage for the Review Period was calculated at 8%, with all contracts considered, and 3% with two outlying contracts removed
- Percentage within industry standard range of approximately 8-14%, even including outliers and compares favorably when excluding outliers

GB Resolutions Review



- Reviewed all Governing Board agendas and minutes to identify all construction change order resolutions approved during the three fiscal years 2020 through 2022
- This period covers the time period since the *Audit of Construction Change Orders*, issued November 10, 2021
- Governing Board approved seven resolutions for construction change orders during this period for a total of \$113,749,701
- \$109,987,751 (97%) was for two large change orders



Board Approved Resolutions



Change Order Resolutions Fiscal Years 2020 - 2022

Project	Board Meeting Date	Resolution #	Board Approved Amount	Executed Change Order
Lakeside Ranch Stormwater Treatment Area S-191	11/12/2020	2020-1109	\$135,292	\$135,292
S-169W Relocation and C-20 Canal Armoring Project	11/12/2020	2020-1110	\$489,266	\$489,266
RS-G341 Conveyance Improvements	12/10/2020	2020-1210	\$2,500,000	\$2,051,430
Lakeside Ranch Stormwater Treatment Area S-191	6/10/2021	2021-0606	\$455,457	\$455,457
C-44 Reservoir/STA, S-401	10/14/2021	2021-1014	\$181,935	\$181,935
C-43 Reservoir Project	3/10/2022	2022-0306	\$25,000,000	\$17,327,667
C-640 Canal Graded Filter (CEPP New Waters EAA A-2 Stormwater Treatment Area)	7/14/2022	2022-0712	<u>\$84,987,751</u>	<u>\$84,987,751</u>
Total			\$113,749,701	\$105,628,798



DISCUSSION



Questions & Comments