

**Review of Grant Agreement S0802 with the Loxahatchee River  
Environmental Control District**

**Office of Ecosystem Projects**

**Report: A-1516DEP-033**

**Office of Inspector General**

**Internal Audit Section**

**Florida Department of Environmental Protection**

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The Florida Department of Environmental Protection (Department) Office of Inspector General (OIG) conducted a review of Grant Agreement S0802 (Agreement) between the Department and the Loxahatchee River Environmental Control District (District). This review was initiated as a result of the Fiscal Year (FY) 2015-2016 Annual Audit Plan.

## Scope and Objectives

The scope of this review included activities associated with Task 1 of the Agreement during the period of April 2015 through March 2016. The objectives were to evaluate the District's compliance with the Agreement and the level of oversight of Agreement activities by the Office of Ecosystem Projects (Office) and District.

## Methodology

This review was conducted under the authority of Section 20.055, Florida Statutes (F.S.), and in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Our procedures included interviews with Office and District staff, as well as review of Office and District records.

## Background

In April 2015, the Department entered into the Agreement with the District to provide financial assistance for the Loxahatchee River Neighborhood Sewering Project (Project). The Project involves conversion of 240 private properties from septic tank-based systems to the District's regional sewer system. As shown below, the total cost of the Project (\$2,400,000) is shared between the Department, District, and the 240 related private property owners.

RESPONSIBLE ENTITY	COST-SHARE (\$)	COST-SHARE (% OF PROJECT TOTAL)
Department	\$600,000	25%
District	\$180,000	7.5%
Private Property Owners	\$1,620,000	67.5%
<b>Project Total</b>	<b>\$2,400,000</b>	<b>100%</b>

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According to the Agreement work plan, the Project is made up of the following tasks:

- Task 1: The District was required to procure a design subcontractor to develop a final design plan for the Project and obtain a permit from the Palm Beach County Department of Health. Department financial assistance was \$133,307 for Task 1 reimbursement of contractual services.
- Task 2: The District's design subcontractor is to competitively procure a subcontractor to construct the Project in accordance with the final design plan and monitor the construction of the Project. Department financial assistance for this task is \$466,693 for reimbursement of contractual services.

The District completed Task 1 in August 2015 and submitted Invoice #1 to the Department for reimbursement of \$132,566.50 for contractual services provided by the District's design subcontractor. Task 2 activities were not included in our scope because Task 2 was in progress at the time of our review and no reimbursements had been made to the District.

## **Results and Conclusions**

Based on our review of Task 1, the District was reimbursed for allowable contractual service expenditures, in accordance with the Agreement. The amount reimbursed was below the maximum allowable reimbursement amount for Task 1. The District submitted Invoice #1 with an itemized listing of costs and the *Payment Request Summary Form* required by the Agreement. Invoiced costs were supported by invoices from the District's design subcontractor, the Project final design plan, and the required permit issued by the Palm Beach County Health Department.

As required by the Agreement, the District submitted Progress Report Forms for each quarter since execution of the Agreement. In addition, the District secured and maintained all required insurance policies meeting or exceeding coverage levels required by the Agreement.

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The Agreement requires the District to provide supporting documentation for reimbursed costs indicating they were paid. Invoice #1 was submitted with a cover memo and invoices from the design subcontractor indicating payment by the District.

According to the Agreement, the District is required to provide the Office with contracts for any subcontractors used by the District for the Project. In addition, when submitting invoices to the Office for reimbursement, the Agreement requires the District to provide subcontractor procurement documentation for any fixed-cost contracted services reimbursed by the Department. The District provided the Office with the executed contract for the District's design subcontractor; however, no procurement documentation was provided with Invoice #1 related to contractual services provided by the District's design subcontractor. As part of this review, we requested procurement documentation for the District's design subcontractor. The District provided documentation indicating that it competitively procured the design subcontractor in conformance with Section 287.055<sup>1</sup>, F.S., by soliciting qualifications, references, and costs from potential contractors.

According to interviews, Office staff reviewed documents included with Invoice #1 to ensure that all costs submitted were allowable under the Agreement and were supported by invoices from the District's design subcontractor. The final design plan was reviewed by the District's professional engineer to confirm that the final design plan adhered to the District's Construction Standards and Technical Specifications. In addition, the permit issued by the Palm Beach Health Department authorized construction of the Project based on the final design plan.

Our management comments are contained in the remainder of this report.

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<sup>1</sup> Consultants' Competitive Negotiation Act

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## **Management Comments**

### **Reimbursement of Fixed-Price Subcontracted Costs**

According to Section 3(C)(i)(a) of the Agreement, invoices submitted to the Department for fixed price subcontracted activities shall be supported with a copy of the subcontractor's invoice and a copy of the tabulation form for the competitive procurement process (Invitation to Bid or Request for Proposals) resulting in the fixed price subcontract.

Invoice #1, submitted by the District for reimbursement of Task 1 costs, consisted of fixed price activities invoiced by the District's design subcontractor. However, contract procurement documentation was not included with the District's invoice.

As part of this review, we verified the design subcontractor's competitive procurement documentation obtained from the District. Going forward, prior to reimbursement of fixed price subcontracted costs, the Office should obtain contract procurement documentation from the District.

### **Documentation Indicating Payment of Reimbursed Costs**

According to the Agreement Attachment C Contract Payment Requirements, *supporting documentation must be provided for each amount for which reimbursement is being claimed indicating that the item has been paid. Check numbers may be provided in lieu of copies of actual checks.* We reviewed Invoice #1 submitted by the District for reimbursement, which included invoices from the District's design subcontractor. The invoices contained initialed notations of payment approval by District management. In addition, the District's invoice cover letter indicated that invoices had been paid. However, these documents did not provide specific references to actual payments as described above.

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As part of this review, we obtained check numbers from the District for each subcontractor invoice included in Invoice #1. The payment dates associated with each check number indicated that the invoices were paid within three to four days of approval. Going forward the Office should require the District to provide invoice payment information as specified in the Agreement Attachment C, prior to reimbursement of costs.

*To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our review was conducted under the authority of Section 20.055, F.S., and in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The review was conducted by Gabriel Earnest and supervised by Valerie J. Peacock.*

*Please address inquiries regarding this report to the OIG's Audit Director by telephone at (850) 245-3151. Copies of final reports may be viewed and downloaded via the internet at <http://www.dep.state.fl.us/ig/reports.htm>. Copies may also be obtained by telephone (850) 245-3151, by fax (850)245-2994, in person or by mail at Department of Environmental Protection, Office of Inspector General, 3900 Commonwealth Boulevard, Mail Station #41, Tallahassee, FL 32399.*

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