South Florida Water Management District

Governing Board
Audit and Finance Committee
MEETING MINUTES

April 14, 2010
10:00 AM
District Headquarters - B-1 Auditorium
3301 Gun Club Road
West Palm Beach, FL 33406

Members Present:

Eric Buermann **Joe Collins** **Charles Dauray**
Glenn Waldman

1. **Call to Order -** Charles Dauray, Chair

Chair Dauray called the meeting to order at 10:18 a.m.

Governing Board members Kevin Powers, Sandy Batchelor and Pat Rooney were in attendance at the meeting.

Note: Eric Buermann arrived at 10:28 a.m.
Note: Glenn Waldman arrived at 11:10 a.m.

2. **Approval of Minutes**

Approval of the Minutes for the February 10, 2010, Audit & Finance Committee meeting held at the Hilton, Palm Beach Airport, in West Palm Beach, Florida

Motion made by Joe Collins, seconded by Eric Buermann, to approve the Audit & Finance Committee meeting minutes which was held on February 10, 2010 at the Hilton, Palm Beach Airport. Vote called. Voting yes: Charles Dauray, Joe Collins, Eric Buermann. Not present: Glenn Waldman. Motion passed.

3. **Changes to Agenda -** Annette Carter, Director, Office of Governing Board & Executive Services

Chair Dauray announced that Agenda Item 8 will be presented first on the agenda.

4. **District's Financial Principles** - Paul E. Dumars, Sr., Chief Financial Officer, Executive Office (ext. 6212)

Paul Dumars, Chief Financial Officer, presented an overview of the District's fiscal foundation built upon 16 principles of sound financial management:

Business Ethics
Strategic Financial Planning
Capital Projects Plan
Fiscal Plan
Balanced Budget
Revenues
Cash Management and Investment
Internal Control
Disbursements
Debt Management
Reserves
Procurement and Contracting
Accounting and Financial Reporting
Independent Audit
Internal Audit
Asset Inventory

5. **Debt Policy Discussion** - Stephen Freilich, Treasurer, Executive Office (ext. 6819)

Steve Freilich, Treasurer, Executive Office, presented information on the Debt Management Policies and the GFOA guidelines for governments:
- Ensure Best Practices in Government Finance
- Outlines Type and Amount of debt allowed
- Improves quality of financing decisions
- Provides justification for debt structure
- Demonstrates commitment to long-term financial planning
- Signals to the capital markets that an issuer is well managed and will meet its obligations.

Mr Freilich reported on the debt policy guidelines, the District's current debt ratios and the debt policy and consideration factors.

Mr. Powers asked about statistical modeling. Mr. Dumars explained the rating agencies run models and apply to the market for the ratings.

6. **Reserves Discussion** - Paul E. Dumars, Sr., Chief Financial Officer, Executive Office (ext. 6212)

Paul Dumars, Chief Financial Officer, Executive Office, presented information on the purpose of reserves:
- address unexpected or unforeseen events
- offset downturns in revenues
- enhances fiscal integrity & credit ratings
- ensures orderly operations
- earmarks funds for specific purposes
- set-aside funds for future spending

Mr. Dumars then reported that Fitch Ratings, Inc., on the recent actions on outstanding District bonds stated the Series 2006 Certificates of Participation (COPs) are affirmed at AA-.

Mr. Dumars explained Florida's Reserve statutory guidance/practices and stated there are two types of reserves established:

- Emergency Reserves (economic stabilization reserves, contingency reserves, and hurricane capital project reserves).

- Non-emergency Reserves (designated) (earmarked) reserves, undesignated (non-earmarked reserves).

The total operating reserves are $63.7M which equals 13.9% of FY10 ad valorem taxes.

Mr. Buermann commented on the reserves used for the drought, the District being a public protection agency, and the possibility of the reserves being low.

Mr. Montgomery said we should have reserves and a reserve policy. He said this agency is doing a much better job of budgeting and forecasting and executing it's mission of spending money on a real time basis. Mr. Montgomery commented on the ad valorem taxes and has concerns about replenishing the reserves if there are unforeseen events or uncertainties.

Mr. Dumars noted a level of reserves consistent with governmental practices in Florida appears to be in the range of 5%-15% of either total budget or its primary revenue source (ad valorem taxes). Due to economic conditions and falling revenues, Mr. Dumars recommends having a policy on budget reserves.

Mr. Montgomery requested information on the amount spent that was not budgeted from 2004 to present.

Ms. Wehle commented on the short term and long term issues for storm events and effects on reserves.

Mr. Dauray requested Mr. Collins and Mr. Montgomery work with staff on the reserves policy guidelines.

Mr. Collins commented on the history of the agency and reserves being needed for canals and structures. Since the District is now building new capital projects (C-111, Lakeside Ranch), the capital projects need to be included as part of the reserve planning.

Mr. Dauray said staff have done an admirable job regarding the District's reserves.

Public Comment: Martha Musgrove, citizen, commented on the pay as you go policy and the boom/bust cycles over the past years and what projects are suitable for this this policy.

7. **Update of Projected Revenues and Economic Conditions** - Mike Smykowski, Director, Budget Office (ext. 6295)

Mike Smykowski, Director, Budget Office, presented an update on the projected revenues and economic conditions. Mr. Smykowski reported on the EDR's ad valorem estimating conference projections and actual results.

Mr. Smykowski then reported on the Save Our Everglades Trust Fund revenue and the Florida Forever Program.

There was discussion about Florida Forever appropriations and the program having an end date.

8. **Fiscal Year 2009 Comprehensive Annual Financial Report, Audit Management Letter, and Single Audit Discussion** - Frank Compiani, Client Service Partner, Bob Feldmann, Engagement Partner, and Brett Friedman, Engagement Director, from McGladrey & Pullen, LLP.

Aaron Basinger, Director, Finance, introduced the staff of the accounting firm of McGladrey and Pullen, LLP.

Bob Feldman, Engagement Partner, and Brett Friedman, Engagement Director, McGladrey and Pullen, LLP, presented the results of their audit of the District's Fiscal Year 2009 financial statements. Each year, the District is statutorily required to have an independent audit performed on its financial statements to ensure they are fairly presented and in compliance with generally accepted accounting principles. In addition, a separate audit is performed on Federal and State grant monies spent to ensure that the District is in compliance with grant agreements, applicable laws, and regulations. Our independent auditors also issue a Management Letter to inform the Governing Board and executive management of any other issues identified during the audit.

The District has again received an unqualified or clean audit opinion from our independent auditors on the financial statements. Also, the auditors noted no material weaknesses in the District's system of internal financial controls and there were no matters of non-compliance with grant agreements, laws, or applicable regulations. Lastly, no disagreements were noted with management during the audit and the District remains a low-risk auditee.

The auditors did make some recommendations to improve internal controls over day to day operations. District staff reviewed and concurs with the recommendations and is taking appropriate measures to implement them.

9. **Inspector General's Activity Report** - John Williams, Inspector General (ext. 6128)

John Williams, Inspector General, provided an update on the status of various audits and investigations being undertaken by the Office of Inspector General.

Mr. Williams also presented two audit reports for the Committee's approval:
- Audit of SCADA Implementation and Operations; and
- Audit of the District's Mid-Year Annual Work Plan.

The Committee approved the reports and will recommend approval to the full Governing Board.

10. Office of Inspector General Peer Review Report - Tim Beirnes, Director of Auditing (ext. 6398)

Tim Beirnes, Director of Auditing, presented the Office of Inspector General Peer Review Report for the three-year period that ended December 31, 2009. The report was performed through the Association of Local Government Auditors peer review program. The purpose of the peer review was to determine whether the Inspector General's Office is complying with Government Auditing Standards. The Office received a Full Compliance report, which is the highest level of compliance.

11. Audit Recommendations Follow-Up Report - Tim Beirnes, Director of Auditing (ext. 6398)

Mr. Beirnes presented the quarterly Audit Recommendations Follow-Up Report. The report shows that management is doing a good job of implementing the audit recommendations.

12. Public Comment

There was no public comment.

13. Adjourn

Chair Dauray adjourned the meeting at 12:03 p.m.

Charles Dauray
Chairman
Audit and Finance Committee

Recorded By:

Cathy Widness
Administrative Assistant Senior
Governing Board and Executive Services
SFWMD