Final Report

Project 2011-28
January 2011

Review of Resource Protection Business Process
Environmental Resource Management Core Service

Sarasota Board of County Commissioners

Mark R. Simmons, CIA CFE - Director, Internal Audit
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January 6, 2011

Theresa Connor, Executive Director, Environmental Resource Management
Sarasota Board of County Commissioners

Dear Ms. Connor:

Enclosed is our report on management controls over financial and compliance objectives associated with providing Resource Protection services.

Managers and staff responsible for managing Resource Protection financial and compliance objectives have processes in place that provide reasonable assurance key business risks can be mitigated effectively. An opportunity exists to further mitigate business risks by implementing an internal protocol to identify and address any deviations from grant agreements.

We wish to express our appreciation for the cooperation and assistance provided throughout the audit. Please do not hesitate to contact either of us if you have any questions.

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Senior Internal Auditor

Mark R. Simmons, CIA CFE
Director, Internal Audit

cc: Karen E. Rushing, Clerk of the Circuit Court and County Comptroller
    James L. Ley, County Administrator
    David R. Bullock, Deputy County Administrator
    Jeff Seward, Chief Financial Planning Officer
    Mary Sassi-Furtado, Executive Director, Strategic Operations
    Peter H. Ramsden, Finance Director, Clerk of the Circuit Court and County Comptroller
    Amy Salman Meese, General Manager, Environmental Resource Management
    Matthew Osterhoudt, Manager, Resource Protection, Environmental Resource Management
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Summary

Management controls over the Resource Protection business process provide reasonable assurance key business risks can be mitigated effectively. This in turn enhances the high performance capabilities of this organization by improving the likelihood of quality outcomes and services.

We noted one instance in which a $10,462 grant reimbursement for the Habitat Conservation Plan was disallowed. The grantor could not determine whether documentation that was submitted for billable tasks had been previously reimbursed.

Inherent Business Risks

“Business Risk” is the likelihood of an event occurring and the resulting impact should the event actually occur. We assessed management control over the following inherent business risks:

1. Legal Liability Exposure
2. Loss of Revenue Sources
3. Business Interruption

Audit Objective

The objective of our business process review was to determine whether the Board of County Commissioners can have reasonable assurance that responsible managers and employees have identified and addressed the critical risks and vulnerabilities associated with achievement of Resource Protection business process objectives.

Our review assessed the state of management controls as of November 2010 (please read Appendix A on page 5 for our scope and methodology). Our assessment criteria may be read in Appendix D, on page 8.

Background

The Resource Protection business process is described in Govmax:

“Through environmental planning, implement the Environment Chapter of the Comprehensive Plan to protect our community’s natural resources and develop conservation measures for threatened and endangered species. Review and monitor growth management and land development proposals through the administration of the Natural Resource Protection Codes that protect our native habitat, trees and wildlife. The program also serves as an internal environmental consultant for other County initiatives.”

Business process activities include:

- Water and Navigation Control Authority (WNCA) permitting
- Earthmoving and Fill permitting
- Land Development Reviews/Site permitting
- Tree Protection and Removal
- Manatee Protection Plan
- Habitat Conservation Plan
- Mangrove monitoring
- Coastal construction monitoring

The 2011 fiscal year adopted budget for Resource Protection is approximately $1.0 million dollars.
Status of Business Risk Mitigation

(1) Management controls over Resource Protection business process objectives and related Legal Liability Exposure, Loss of Revenue Sources, and Business Interruption risks are generally effective. Please read Appendix B on page 6 for details.

(2) A review of grant reimbursements produced only one exception: A $10,462 request for reimbursement of Habitat Conservation Plan costs was disallowed by the Florida Fish and Wildlife Conservation Commission (FWC). FWC was unable to confirm from submitted documentation whether or not the cost of billable tasks had been reimbursed previously. The responsible manager has taken steps to assure future reimbursement requests are documented thoroughly. Please read Issues and Observations in Appendix C on page 7.

(3) We also observed that due to unexpected delays (including emergency responses to the British Petroleum oil spill), the Manatee Protection Plan (MPP) has not been reviewed five years after its adoption on November 24, 2003, as stipulated in the original plan. The FWC has indicated no pressing scientific need for the MPP to be immediately updated, and the responsible manager will continue to coordinate with FWC to ensure desired timeframes will be met to their satisfaction. Please read Issues and Observations in Appendix C on page 7.

(4) We sampled check and electronic funds transfer transactions and purchasing card transactions for compliance with County operational policies, legal, and regulatory requirements, and found no exceptions to our audit test criteria.

Report Distribution List:

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APPENDIX A

Scope and Methodology

To achieve our objective we evaluated key elements of the five components of management control as of November 2010.

The Control Environment

• Conducted interviews with the Resource Protection Manager and staff to discuss the existence, consistency, and awareness of core values and objectives.

• Evaluated management knowledge and awareness of policies and procedures.

Risk Assessment Practices

• Conducted interviews with Resource Protection Manager and staff to discuss risks associated with achievement business process objectives.

• Discussed the status of the Manatee Protection Plan (MPP) and Habitat Conservation Plan (HCP) with the Project Scientist.

• Researched risks and vulnerabilities, and discussed risk mitigation strategies and possible opportunities for improvement with the responsible manager and staff.

Control Activities

• Reviewed relevant policies and procedures.

• Evaluated compliance with grant agreements.

• Performed testing on a judgmental sample of check and electronic funds transfer transactions for compliance with operational policies, legal and regulatory requirements.

• Performed testing on a judgmental sample of purchasing card transactions for compliance with County policies, legal and regulatory requirements.

Information and Communications

• Evaluated, through interviews with management whether information and communications were: appropriate, timely, current, accurate, and accessible.

• Established, through interviews and interactions with managers, the adequacy and effectiveness of communication processes.

Monitoring Activities

• Through inquiry, observation, and analysis assessed management’s monitoring, oversight, and reporting practices.
Inherent Risk #1. Legal Liability Exposure
Inherent Risk #2. Loss of Revenue Sources
Inherent Risk #3. Business Interruption

Responsible managers have taken the following actions to mitigate these key risks:

Control Environment
• Authority and responsibility is properly assigned and activities are properly directed.
• Job descriptions specify duties and responsibilities.
• A zero tolerance policy for gift/bribes is strongly emphasized to staff.
• The high profile nature of the business process activities helps to ensure a high degree of integrity and professionalism.

Risk Assessment
• Environmental Resource Management core service managers meet every two weeks and discuss risks and opportunities as needed.
• Natural Resource personnel meet every two weeks.

Control Activities
• Continuity of Operations Plan (COOP) is in place with protocol to suspend programs and assist Planning and Development Services in the event of a disaster.
• Policies and procedures are dictated by relevant ordinances, laws or regulations.
• Internal cross-training of duties.
• Process modeling for each function has been performed in the past, and is currently being updated.

Information/Communication
• County personnel assigned responsibility for managing Resource Protection activities regularly communicate with upper management to ensure business process objectives are properly aligned and achieved.
• Administrative procedures are catalogued on the SharePoint site.

Monitoring Activities
• Department measures and processes are routinely tracked and monitored to ensure business process objectives are being achieved.
• We noted that a $10,461.61 grant reimbursement for the Habitat Conservation Plan was disallowed because the grantor could not determine whether the submitted documentation had been previously reimbursed.

An email from the Florida Fish and Wildlife Conservation Commission (FWC) dated November 10, 2010, stated, “FWC will be unable to make payment on the invoice submitted under the Settlement Agreement. The work submitted fell within the original contract period, and hence were not covered by the Settlement Agreement. These would be billable as tasks completed within the original contract period, if appropriate documentation was submitted verifying the work was completed and assuring that these tasks have not previously been reimbursed. Unfortunately, due to changes in accounting requirements, the later [sic] is not available.”

Management’s Corrective Action Plan:

“In the future, thorough written documentation of agreements with respect to timeframes and continued close coordination with external agencies is key. An official contract extension that guaranteed the assurances made by the state and federal wildlife agencies might have resulted in the complete reimbursement of the grant.

… Based on guidance and assurance from the grantor that the project could proceed, minimal to no risk was identified with work continuing past the contract date. The County could have requested this guidance and assurance be incorporated into the contract agreement, thus expressly extending it until work was completed. For future projects, an internal protocol could be implemented that requires any deviations from grant agreements be memorialized therein. …This additional control would further limit any risk.”

• We also noted that due to unexpected delays (including emergency responses to the British Petroleum oil spill), the Manatee Protection Plan (MPP) has not been reviewed five years after its adoption on November 24, 2003, as stipulated in the original plan.

The Resource Protection Manager informed us that, “As we were approaching the MPP five year update, we consulted with FWC who provided direction to not move forward at the time. During that time, the state had mandated the County enact a Local Rule Review Committee (LRRC) relating to manatee speed zones and FWC expressed that the LRRC takes priority as a state mandate. They also conveyed that there was no pressing scientific need for the MPP to be immediately updated. As such, we agreed that the MPP update would follow the completion of the LRRC and the update to the speed zones. As such, the MPP update is on track and we continue to coordinate with FWC to ensure the timeframe meets their satisfaction.”
Criteria for Evaluation of Management’s Control of Business Risk

The Nature of Internal Auditing

Internal auditing is an integral part of the constitutional duties assigned to the Clerk of the Circuit Court and County Comptroller as Auditor of the Board of County Commissioners. The Clerk’s internal audit department provides independent, objective assurance, attestation, and other services designed to add value and help improve County operations. This is accomplished by bringing a systematic, disciplined approach to evaluate the effectiveness of County business risk management, control, and business-governance processes. Our audit work is performed under guidance provided by the professional auditing standards of the Institute of Internal Auditors and the U.S. General Accountability Office.

The Nature of Business Risk Management, Control, and Governance Processes

Business risk management, control, and governance processes are all those activities designed and engaged in by the Board of County Commissioners, County Administration, executives, directors, and staff to provide reasonable assurance of (1) reliable financial and operating data and reports, (2) compliance with laws and regulations, (3) effective and efficient business practices, and (4) sound stewardship of the public resources and assets entrusted to them. Reasonable assurance that these core business objectives can be achieved is dependent upon the presence of the five components of management control listed below:

- The Control Environment
- Risk Assessment Practices
- Control Activities
- Information and Communications, and
- Monitoring Activities.

To control business risk, all five components must operate effectively and in unison, and all County employees share in that responsibility. Please read Appendix E, pages 9 and 10, for additional information.

The Nature of Reportable Issues

The Institute of Internal Auditors defines these as situations that are of such significance that they require the attention of the senior leadership.

Critical Conditions

Any condition that has caused, or is likely to cause, errors, omissions, fraud or other adversities of such magnitude as to force immediate corrective actions to mitigate the associated business risk and possible consequent damage to the organization.

Important Conditions

Any condition that has caused, or is likely to cause, errors, omissions or other adversities that increase business risk and possible consequent damage to the organization, but does not require immediate corrective actions to mitigate the associated impact on operations or outcomes. Important conditions require attention within the short term (typically less than one year from disclosure).

The Nature of Opportunities for Enhancement

These represent improvements to the system of management control that the responsible manager may wish to consider as time and resources permit.
DEFINITION OF MANAGEMENT CONTROL

Management control is broadly defined as a process, affected by managers and other people, that provides reasonable assurance of achieving the three primary objectives for which all businesses strive:

- Effective and efficient operations, including achievement of performance goals and safeguarding of assets against loss
- Compliance with laws and regulations
- Reliable operational and financial data and reports

COMPONENTS NECESSARY FOR EFFECTIVE MANAGEMENT CONTROL

The CONTROL ENVIRONMENT
The foundation for effective control. It sets the tone for the organization, and influences the control consciousness of its people. It addresses:

- Integrity, ethical and cultural values
- Competence of the organizations’ people
- The manager’s philosophy and operating style
- Assignment of authority and responsibility
- Organization and development of human resources
- The attention and direction given by senior management

RISK ASSESSMENT
The process of recognizing and prioritizing operational risks and obstacles.

- Statement of clear objectives
- Recognition of critical risks and obstacles
- Identification of factors critical for success
- Identification of significant changing conditions

CONTROL ACTIVITIES
Flow from Risk Assessment. Control Activities are the policies and procedures that managers establish to minimize risks and obstacles to desired outcomes. Examples include:

- Guidance, processes and practices
- Safeguarding resources
- Information systems and processing controls
- Approvals, authorizations, verifications, and reconciliations
- Division of work and separation of responsibilities

INFORMATION and COMMUNICATION
Provide the knowledge people need to meet responsibilities.

- The systems of information gathering
- The systems of internal/external communications flowing down, across and up the organization
- Internal and external data for decision-making
- Employees’ understanding of their control responsibilities
- Employees’ understanding how their work fits into the “big picture”

MONITORING ACTIVITIES
Involves assessment of control effectiveness by appropriate people on a timely basis.

- Measurement of outcomes
- Comparison of expected and actual results
- Performance comparisons and variance analyses
- Review of work assignments
- Upward reporting to senior management of significant concerns and issues
CRITERIA FOR ASSESSMENT OF EFFECTIVE MANAGEMENT CONTROL

Management control can be judged effective if the responsible managers and senior leadership have reasonable assurance that they understand the extent to which desired outcomes are being achieved; the extent to which operational and financial data is being prepared reliably; and the extent to which legal and regulatory requirements are being met.

This reasonable assurance exists when the five components of control are present and operating effectively. When this happens, the system of control should bring to light and routinely correct any critical or important conditions. These would be events that are likely to cause errors, omissions or other adversities of such magnitude that prompt corrective actions are required to mitigate the associated business risk and possible consequent damage. The expectation is that, in the normal course of operations, critical or important conditions can be identified, addressed and corrected; and not allowed to become persistent or pervasive. When significant issues are not detected and corrected, or when they become persistent or pervasive, then it can be inferred that operations are out of control.

Should any one of the five components of the control framework be absent or seriously flawed, then it would be highly unlikely that effective control could exist. In practice, the need for efficient operations implies that the benefits derived from controls should exceed the cost to implement and maintain control processes. This acknowledges that there is a certain amount of residual risk associated with an effective system of management control.

INHERENT LIMITATIONS

The effectiveness of controls changes over time. Moreover, controls designed to prevent all problems would not be cost effective. Limitations which may hinder the effectiveness of a system of controls include resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by the audit process.
APPENDIX F

Laws, Policies, Rules and Regulations

Sarasota County Ordinance 2003-075, Manatee Protection Plan
Sarasota County Ordinance 2006-097, Water and Navigation Control Authority
Catalog of Federal Domestic Assistance, Cooperative Endangered Species Conservation Fund, Project Grant Number 15.615
Section 379.2431, Florida Statutes, Marine animals; regulation
Section 287.057, Florida Statutes, Procurement of commodities or contractual services
Sarasota County Procurement Manual
Sarasota County Purchasing Card Policies