

# The School Board of Miami-Dade County, Florida

Management Letter  
June 30, 2011



McGladrey & Pullen, LLP  
Certified Public Accountants



The Chairperson and Members of  
The School Board of Miami-Dade County, Florida

In connection with our audit of the basic financial statements of The School Board of Miami-Dade County, Florida (the School Board), as of and for the year ended June 30, 2011, we identified deficiencies in internal control over financial reporting (control deficiencies) and performance improvement observations.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Included in the appendix to this letter are descriptions of identified control deficiencies and performance improvement observations that we determined did not constitute significant deficiencies or material weaknesses.

The School Board's responses to the findings identified in our audit are described in the accompanying appendix A. We did not audit the School Board's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management of the School Board, the Chairperson and Members of the School Board of Miami Dade County, Florida and the Chairperson and Members of the School Board Audit and Budget Advisory Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Miami, Florida  
November 22, 2011

**The School Board of Miami-Dade County, Florida**

**Appendix A – Control Deficiencies and Performance Improvement Observations**

<b>No.</b>	<b>Current Year's Observations</b>
2011-01	Self-Insurance Fund Deficit
2011-02	Domain Password Parameters
2011-03	Generic Account and Duplicate User Profiles
2011-04	Change Management

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### Appendix A – Control Deficiencies and Performance Improvement Observations

#### 2011-01 Self-Insurance Fund Deficit

Criteria: Internal service funds are specifically designed for goods or services that are provided on a cost reimbursement basis. The goal of an internal service fund should be to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. If a government does not intend to recover the full cost of providing good or services, the use of an internal service fund would not be appropriate. GASB Statement 34 paragraph 68 states that internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

Condition: The School Board's health self-insurance fund reported a net accumulated deficit of approximately \$6.1 million, as of June 30, 2011. This deficit resulted from an operating loss of \$1.4 million for the fiscal year ending June 30, 2010, representing six months of operation from the date of inception of the fund, and an operating loss of \$4.7 million for the fiscal year ended June 30, 2011.

Cause: The rates established to charge each participating fund of the School Board were not sufficient to fund the costs of operating the health self-insurance fund.

Effect: The School Board may not have enough resources accumulated to fully liquidate insurable liabilities as they become due. In addition, by not properly allocating these charges to the various funds and functions, the School Board might not incorporate all of the School Board's cost that would be applicable in order to accurately establish rates and fees for services that are charged by the School Board to external parties.

Recommendation: We recommend that the School Board evaluate its health self-insurance program, to not only help ensure that the level of amounts charged to user funds are sufficiently balanced to sustain the self-insurance program, but also to help ensure that reserves will be replenished in order to fund the growing deficit. The amount charged by the internal service fund to the other funds should be based on a systematic method and adjusted over a reasonable period of time so that internal service fund's revenue and expenses are approximately equal.

Views of responsible officials and planned corrective actions: When the Board decided to convert from a fully insured healthcare plan to a self-insured model for calendar year 2010, Deloitte Consulting LLP was hired to develop annual actuarial projections for the healthcare plan based upon expected claims for the insured population. From this projection premium equivalent rates are determined for each coverage tier (employee only, employee + spouse, employee + children, employee + family). Due to the reduction in workforce, the revenue projected at the beginning of the year was not realized. During the same period, actual claims increased significantly. Various cost drivers have been identified as contributing to the increase in claim costs including having incurred more catastrophic claims, diagnostic visits, emergency

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room and hospital admissions, longer hospital stays, as well as more utilization of expensive services.

The deficit of \$6.2 million noted in the audit, represents 1.3% of \$477 million in claims and expenses incurred from January 1, 2010 to June 30, 2011. Additionally the District has received reimbursement of 2010 claims expenses of \$4.7 million from the Federal Early Retiree Reinsurance Program and has submitted \$2.7 million more for a portion of 2011 claims.

The Office of Risk and Benefits Management continues to work with Deloitte Consulting and Cigna Healthcare, the District's administrative services provider, to monitor claims and revenue to adjust for the volatility of medical claims and enrollment. It is understood that the amounts charged to user funds should sustain the self-insurance program and help replenish reserves to a reasonable level.

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#### 2011-02 Domain Password Parameters

Criteria: General Information Technology (IT) controls are designed to ensure that logical and physical access to IT computing resources is appropriately restricted by the implementation of identification, authentication and authorization mechanisms to reduce the risk of unauthorized/inappropriate access to the organization's relevant financial reporting applications or data. An example of this is utilizing complex passwords which contain different types of characters that make it difficult for an unauthorized user to utilize technology tools to discover the password.

Enabling the system's password complexity requirement would require that passwords meet the following requirements:

- The password is at least six characters long.
- The password contains characters from three of the following four categories:
  - English uppercase characters (A – Z)
  - English lowercase characters (a – z)
  - Base-10 digits (0 – 9)
  - Nonalphanumeric (For example:!, \$, # or %)

Condition: We noted that the system the School Board uses has the capability to require more complex passwords as described above; however, the feature is currently disabled. In addition, the School Board currently requires passwords to be changed every 180 days which is longer than current industry best practices for password security.

Cause: The School Board's domain policy parameters are not set sufficiently to restrict access to the network.

Effect: Failure to implement more secure and complex password requirements could make the system vulnerable to unauthorized access. This may result in a loss or modification of system data and affects the integrity of the system. Passwords that contain only alphanumeric characters are extremely easy to decipher using several publicly available computer utility programs. Also, failure to periodically change passwords also increases the risk a password can be detected by an unauthorized user.

Recommendation: The School Board should consider setting the domain password parameters to be at least 6 alphanumeric characters in length, and contain a non-alphanumeric character (For example: !, \$, # or %). Additionally, based on industry best practices, the maximum password age value should be between 30 and 60 days to minimize the risk of being compromised over time.

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Views of responsible officials and planned corrective actions: The District currently has a number of applications still running on the mainframe and the mainframe's RACF application is unable to use password complexity as defined by Microsoft. In addition, to ease user difficulties and support issues, the District uses a Single Sign-On (SSO) and user password self-help reset application called P-Synch. When users change their network or mainframe password, this application automatically resets all passwords they have that are tied to the SSO. P-Synch must have all systems' passwords using the same policy, and since the mainframe is unable to handle password complexity, we are currently unable to implement this policy. To strengthen the passwords somewhat, we require eight characters instead of six, and still tell users they must use alpha and numeric characters.

The District went to 180 day password expiration also to ease support issues. Because of the length of the District's summer recess, 60 day expiration would be unworkable for most of our users. Most would require support to get back into the system at the start of each school year. It should also be noted that the vast majority of our users do not have access to sensitive or confidential data and may not be skilled in technology, and so overly-strict password policies would cause too many issues. Because of the District's educational mission and requirement for the free flow of information, most of the users cannot be held to the same standard as a bank. Moreover we currently do not have the technology in place to provide different password policy requirements for users based on their access.

The District is currently engaged in a project to replace the Domain Controllers (DCs) at each of our locations. The new DCs will give us the technology to provide varying password policies to users based on their access. At this point, we plan to implement 90 day expiration for users authorized to display/modify sensitive HR and financial data and continue with 180 days for the rest.

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#### 2011-03 Generic Account and Duplicate User Profiles

Criteria: General Information Technology (IT) controls are designed to ensure that logical and physical access to IT computing resources is appropriately restricted by the implementation of identification, authentication and authorization mechanisms to reduce the risk of unauthorized/inappropriate access to the organization's relevant financial reporting applications or data.

Condition: We noted that the School Board has five generic accounts that have been assigned to the administrator SAP group "SUPER." In addition, we identified duplicate user profiles in the mainframe environment that are no longer in use.

Cause: Appropriate controls are not in place to ensure that there are sufficient logical security controls in place for applications and systems that support financial reporting (e.g., network, infrastructure, applications, databases, etc.) to protect against unauthorized/inappropriate access.

Effect: The use of generic accounts significantly impacts the data and information trail and review of activity in exception logs/reports for suspicious events. Generic accounts used for system resources are difficult to associate with an individual employee to enforce accountability.

Recommendation: The School Board should eliminate all generic duplicate accounts and replace them with individual user identification to minimize the risk of unauthorized modification to the production environment.

Views of responsible officials and planned corrective actions: We concur with finding 2. ERP Security believes in the accountability and integrity of user logins. Finding 2 refers to the use of five generic user accounts that McGladrey believes can potentially lead to risk of unauthorized modifications. In order mitigate this risk, we will take the following actions:

- Eliminate two of the generic accounts.
- The generic user accounts used for SAP Support troubleshooting will be reduced to two and will normally be locked until SAP has to perform support or troubleshooting functions. In addition, we will look into ways of logging SAP's activities. Furthermore, we will have the Basis team document whenever access is requested. Consequentially, ERP Security will then grant access to these accounts based only on requests from the Basis team.



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#### 2011-04 Change Management

Criteria: General Information Technology (IT) controls are designed to determine controls are in place to ensure that changes to applications and systems used during the financial reporting process are tested, validated, and approved prior to being placed into production.

Condition: The School Board does not properly document and track the following SAP and mainframe changes for reference:

- Driver changes (SAP)
- Datasets changes (mainframe)
- Job releases (mainframe)

In addition, the change control requirements do not specify information related to the above changes.

Cause: Appropriate controls are not in place to ensure that all changes made to the IT systems are tested, validated, and approved prior to implementation into the production environment. This is to ensure that the changes will meet the user requirements and that the changes will not have a negative impact on any of the existing controls.

Effect: Without proper documentation of changes, there is a risk that unauthorized changes can occur in the production environment.

Recommendation: The School Board should maintain a record of every change executed in the production environment and update the current change management policy to include the different types of changes.

Views of responsible officials and planned corrective actions: In reference to the items you identified:

- **Driver changes (SAP)**

With the addition of the SAP environment we have changed our standards and procedures to incorporate the maintenance and support of SAP and its related modules. The September 1st version of our Standards and Procedures addresses SAP support and the change management procedures for SAP. The “Driver changes” is actually the Bus Driver interface, this is a development object for the SAP Payroll Implementation Project and would not have been identified as a change and therefore would not be covered as part of change management. That documentation and related specification is in Object Manager under object “PT\_INB\_3010 Time Interface for Transportation Bus Drivers/Aides”. However our Project procedures do not reference the use of “Object Manager” for SAP related projects and should be modified to incorporate that standard.

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In order to mitigate this observation, we will modify our project procedures to incorporate the use of “Object Manager” for SAP related projects.

- **Datasets changes (mainframe)**

Data changes as a result of a Service Request or Project Request are covered as part of the service request or the project documentation. While the documentation and change procedures for programs, jobs and other programming processes are clearly stated in various sections of our standards and procedures, data related changes as a result of a project or service request are not as clear.

In order to mitigate this observation we will modify our standards and procedures to clearly define processes for data related changes to production data.