ASSURANCE AND ADVISORY
BUSINESS SERVICES

The School Board of Miami-Dade County, Florida

Management Letter

Year Ended June 30, 2007

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Management Letter and State Reporting Requirements

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

We have audited 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, 2007, and have issued our report thereon dated November 13, 2007, which referred to our use of the reports of other auditors. In planning and performing our audit of the School Board's basic financial statements, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control.

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

The suggestions included in this letter, which resulted from our consideration of internal control, are submitted to assist in improving procedures and controls. In addition, this report includes other disclosures required by Rules of the Auditor General.

We have also issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 13, 2007. Disclosures in that report should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.800, Rules of the Auditor General, which govern the conduct of school board audits performed in the State of Florida and require that certain items be addressed in this letter. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

A. CURRENT YEAR RECOMMENDATIONS

2007-1 Accounting Staff/Financial Statement Close Process

Observation

In performing the fiscal year 2007 audit, we identified audit differences resulting in adjustments to the School Board's basic financial statements. Noted audit differences included reclassifications and other adjustments to the 2007 financial statements in the areas of capital asset classification; reporting of net asset components; fund balance reserves; expense recognition and other modifications in the financial statement presentation and disclosure.

Recommendation

We recommend that the School Board's accounting department examine its financial statement close and reporting processes with the objective of ensuring that it has sufficient accounting personnel to effectively perform the financial statement close process. Also, in light of the School Board's implementation of the new ERP system, anticipated growth, and corresponding involvement in complex accounting matters, the School Board should consider the possible need for additional accounting resources with sufficient knowledge of generally accepted accounting principles, and financial reporting requirements.

Management's Response

Management agrees with this recommendation. We have filled some positions and are in the process of filling the remaining required positions that will enable us to perform a more effective financial close process and provide support to the implementation of the new ERP system.

2007-2 Use of an Internal Service Fund for the Self Insurance Program

Observation

The School Board currently records its risk financing activities in the general fund, which is permissible under generally accepted accounting principles; however, it is more prevalent in practice for school districts and other local governments to account for their self-insurance programs utilizing internal services funds. By doing so, the users of the School Board's financial statements are able to clearly view the specific assets, liabilities, and net assets of the self insurance program and can better evaluate the activities and adequacy of premiums charged to the various departments and funds. This level of accountability and reporting also enables the users of the financial statements to determine to what extent self-insurance liabilities are funded.

Recommendation

We recommend that the School Board consider using an internal service fund to account for and report its self-insurance program. An internal service fund is a tool for accumulating and allocating costs to the benefiting funds in the form of fees and charges. The use of an internal service fund to track the School Board's self insurance costs would allow for enhanced transparency; separate accounting; visibility as to rising costs and provide a mechanism for recovering those costs. This approach is consistent with other school districts and should be considered as the School Board implements its new ERP system.

Management's Response

Management agrees with this recommendation and will incorporate the implementation in the ERP project.

2007-3 Program Development-Implementation

Observation

The School Board is in the early stages of a major ERP system implementation, having selected SAP as their vendor. The planned go-live date for the FI (financials) module is January 2009 and the HR module July 2009. The total timeframe for all modules selected for implementation will be two years.

The majority of such large-scale system implementation projects pose significant challenges in terms of resources and other unforeseen issues. Some of the common causes of delays and budgetary challenges are:

- Poorly defined critical success factors
- Poorly defined business process and functional requirements
- Inadequate training
- Inadequate testing strategy
- Inadequate assessment on business impact or priority
- Aggressive schedule commitments restricting proper planning phase
- Mismatch balance between time, cost and quality
- Ineffective governance mechanisms and inconsistent decision framework
- Ineffective deployment strategy
- Scale and volume defects

A problematic or over-budget implementation of SAP could result in significant damage to both the reputation of the School Board with its various stakeholders, and the School Board's ability to properly record, process, and summarize its complex and numerous accounting transactions could be adversely affected.

Recommendation

Experience shows that organizations that have undergone a major system implementation have a low ability to self assess, identify, prioritize, and properly develop corrective actions. We recommend that the School Board consider hiring an external team, independent of the implementer and in-house project management department, to help assess program issues and risk and improve project management efficiency and effectiveness. This team will be able to provide the School Board with an independent, objective view of issues and risks as well as help identify opportunities to improve the attainment of project goals and achievement of benefits.

Management's Response

Management agrees with the spirit of the recommendation and will consider all available options to improve the assessment and attainment of successful system implementation.

B. STATUS OF PRIOR YEAR RECOMMENDATIONS

The following is a summary of the June 30, 2006 recommendations, as communicated in the prior year management letter dated October 20, 2006, that were not repeated in the current year recommendations, were not implemented or were only partially implemented by the School Board during the current year. All prior year recommendations that have been fully implemented were not repeated in this section.*

Finding Number	Prior Years' Observation	Comment is Still Relevant	Comment is no Longer Relevant
2006-1	Accounting for Other Postemployment Benefits (to be implemented effective 6/30/08)	X	
2005-1	ERP Project Implementation Best Practices for Public Sector Entities	X	
2002-4	Tracking and Accounting for Building and Building Improvements		X**

* *Comments issued by the Auditor General as a part of their operational performance audits have not been included.*

** *Comment originally included in management letter issued by the predecessor auditor.*

B. STATUS OF PRIOR YEAR RECOMMENDATIONS (continued)

	Recommendation	Management's Response
2006-1 Accounting for Other Postemployment Benefits	In discussions with a number of our clients that have already obtained actuarial studies related to their OPEB liabilities, we have seen very large estimates of liabilities as a result of this new standard. We understand that the School Board is in the process of obtaining an actuarial estimate of its unfunded OPEB liability using the actuarial assumptions and parameters contained in GASB 45. District management and the Board should continue to discuss important issues, such as if and how the liability will be funded, as well as whether or not a trust fund should be established. There are a number of policy decisions that may need to be made and documented prior to the year of adoption of this new pronouncement. We also suggest that the School Board obtain the GASB Statement 45 Implementation Guide in connection with its implementation process, and develop a formal implementation plan for submission to the Audit Committee. We will also ensure that management and the Board are kept apprised of any new information that we are made aware of regarding GASB 45.	The School Board has contracted with an actuarial firm to perform an actuarial valuation that will determine the School Board's liability for Other Post-Employment Benefits upon the implementation of GASB 45 at the end of fiscal year 2007-08. During fiscal year 2006-07 a presentation was made to the Audit Committee to apprise them of the possible impact on the financial statements. It is anticipated that upon completion of the actuarial valuation a subsequent presentation will be made to the Audit Committee. Although a final decision has not been made regarding funding options, it does not appear that in the current financial climate, funding the OPEB liability will be a viable option for the School Board at this time.
2005-1 Project Implementation Best Practices for Public Sector Entities	We recommend that management involve professionals as part of the implementation team to help them define and build an effective set of internal controls over key business areas. As a result of this involvement, the School Board should strive to gain: • Documentation of key business processes and control needs. • Translation of control needs into the ERP configuration requirements. • Prompt identification of control gaps in the ERPs' functionality. • Security and controls awareness for project teams.	The Enterprise Resource Planning (ERP) System was first approved by the Board on December 14, 2005, as part of the District's Comprehensive Information Technology Blueprint. On September 13, 2006, SAP was selected as the ERP platform of choice for the District. On July 11, 2007, the Board passed Item E-147 which awarded the SAP integration engagement to Deloitte Consulting LLC.

	Recommendation	Management's Response
2005-1 Project Implementation Best Practices for Public Sector Entities (continued)	• Understanding of the controls environment affecting the financials environment including operating system platform, database management system, network communications, application software, and surrounding user procedures. • Improved efficiency from automated controls and monitoring provided by the package.	Based upon the mutually agreed high level project timeline, the District's ERP Project officially commenced on September 3, 2007. The ERP Project is currently a planned (24) month engagement which is divided into three distinct releases. Release I involves the implementation of SAP's Finance and Controlling modules and is aimed at replacing the District's current financial system (MSAF). Release II will implement SAP's Human Resources and Payroll modules with Release III implementing the Procurement and GRC (Governance, Risk and Control) modules. As part of the District's ERP Project, a comprehensive governance structure was developed utilizing industry best practices to track, monitor and control all key project activities. The Project's Steering Committee is comprised of key District stakeholders, including the Office of Management and Compliance Audits and senior management from the District, and senior members from the District's integration partners Deloitte Consulting and SAP Americas. The ERP Steering Committee has established policy and procedures encompassing Project Scope Management, Issue Management, Risk Management, Project Planning & Reporting, Organizational Readiness and Change Management. To supplement the ERP Steering Committee, the ERP Program Management Office (PMO) has developed additional committees to serve as working groups which include the Advisory Board and Principal's Committee.

	Recommendation	Management's Response
2005-1 Project Implementation Best Practices for Public Sector Entities (continued)		During the months of September through November, the ERP Project Team conducted a comprehensive walkthrough of the "as is" business analysis that was developed by AnswerThink, Inc. to identify any changes and/or gaps in current business/ operational processes since the original analysis was prepared. This process is termed Visioning by the ERP Project Team and the results will be utilized extensively in the Design/Blueprinting of the new business process. For the remainder of the District's 2007-08 Fiscal Year, the ERP Project Team, in conjunction with the District's Business Process Owners will complete the design for all "in scope" business processes (Finance, HR/Payroll, Procurement and GRC) and begin the Build cycle for Release I.

C. OTHER REQUIRED COMMUNICATIONS

1. No inaccuracies, irregularities, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions were reported in the preceding annual financial report.

2. During the course of our audit of the School Board, nothing came to our attention that would cause us to believe that the School Board was in a state of financial emergency, as defined by Section 218.503(1), Florida Statutes.

3. During the conduct of our audit, we noted no instances of noncompliance with Section 218.415, Florida Statutes, related to the investment of public funds.

4. Except as noted in Section A above, no matters were noted that are not inconsequential to the financial statements considering both quantitative and qualitative factors including the following:

   - violations of laws, rules, regulations, contracts and grant agreements that have occurred or are likely to have occurred or were discovered within the scope of the financial audit;

   - improper expenditures discovered within the scope of the financial audit; and

   - deficiencies in internal control in relation to the financial statements and other recommendations to improve the district school board's present financial management, accounting procedures, and internal controls other than those disclosed herein.

This report is intended solely for the information and use of the Chairperson and Members of the School Board, the Audit Committee, School Board management and the State of Florida Auditor General and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst & Young LLP

November 13, 2007

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