

The School Board of Miami-Dade County, Florida

**Management Letter in Accordance
with Chapter 10.800, *Rules of the Auditor
General of the State of Florida***

For the Year Ended June 30, 2012



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**Management Letter in Accordance with the
Rules of the Auditor General of the State of Florida**

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The School Board of Miami-Dade County, Florida (the School Board or the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 16, 2012. Our audit report made reference to the report of other auditor's with respect to the discretely presented component units.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued under separate cover our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated November 16, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General, which governs the conduct of district school board audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. Corrective actions have been taken to address the related findings and recommendations made in the preceding financial audit report except for those reported in *Appendix B – Status of Prior Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls*.

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School Board did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the School Board complied with Section 218.415, Florida Statutes.

Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. These recommendations are disclosed in *Appendix A- Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls*.

Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address violations of provision of contract or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.804(1)(f)6., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors:

- a) Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and
- b) Deficiencies in internal control that are not significant deficiencies.

In connection with our audit, we did not have any such findings.

Pursuant to Sections 10.804(1)(f)7.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School Board's financial condition, and our financial condition assessment was based in part on representation made by management and the review of financial information provided by same.

Section 10.804(1)(f)8., Rules of the Auditor General, requires the auditor to state whether or not the district school board complied with transparency requirements. Section 2, Specific Appropriation 116 through 130 of Chapter 2010-152, Laws of Florida, provides that district school boards include a link on their Web sites to the Transparency Florida Web site. In connection with our audit, we determined that the School Board complied with transparency requirements.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Miami, Florida
November 16, 2012

The School Board of Miami-Dade County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls

No.	Current Year's Observations
2012-01	Self-Insurance Fund Operations
2012-02	Capital Assets Management
2012-03	IT Network Security Policy
2012-04	IT Periodic Review of User Access Rights
2012-05	IT Data Restoration Process

The School Board of Miami-Dade County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls

2012-01 Self-Insurance Fund Operations

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: We noted that a transfer of \$12 million was made to the health self-insurance fund in order to eliminate its accumulated net deficit, which represents a one-time type transaction. However, there has not been a reevaluation of the rates charged to each participating fund to allow for the accumulation of resources to finance costs/losses in a systematic manner. We noted the fund expenses of approximately \$369 million exceeded charges for services of approximately \$367 million for the year ending June 30, 2012.

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

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

Recommendation: We recommend that the District evaluate its health self-insurance program to ensure that the levels of amounts charged to each user fund are sufficient to accumulate resources and sustain the self-insurance program. 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: During the 2012 calendar year, substantial plan revisions were implemented to avert a substantial projected cost increase. During this fiscal year, net assets increased from a beginning deficit of \$6.19 million to a surplus of \$3.77 million on June 30, 2012, in part because of an additional Board contribution to help stabilize the fund. Although during the fiscal year, the expenses of the Self Insurance Fund exceeded revenues by \$2.05 million, when compared to the plan's projected cost of over \$378 million, this deficit represents approximately 0.5 percent. The last annual filing with the State's Office of Insurance Regulation in February 2012, actuarially reported that the Self Insurance plan will continue to accumulate a surplus over the next two years.

The School Board of Miami-Dade County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls (Continued)

2012-02 Capital Assets Management

Criteria: Entities are required to adopt adequate internal controls to allow for the accurate tracking and recording of capital assets acquired or donated, in order to help assure these are safeguarded.

Condition: We noted instances where capital assets were not being tagged in a timely manner consistent with the District's policy in order to help ensure the proper tracking of capital assets.

Cause: Lack of adequate staffing resulted in a delay in the tagging.

Effect: Capital assets represent a significant cost to the District and are critical to its operation. Failure to timely tag and track assets could lead to theft and potential misappropriation of assets.

Recommendation: We recommend that management evaluate the staffing levels necessary to accommodate for a more timely effort of tagging all capital assets.

Views of responsible officials and planned corrective actions: Management concurs with the recommendation. The recent market and budgetary crisis have limited the ability to meet all needed staffing levels for many departments. Miami Dade County Public Schools has needed to do more with less. Management has been and will continue to actively monitor the items pending to be tagged. Management will evaluate the staffing level in this area and make the necessary adjustment as needed.

The School Board of Miami-Dade County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls (Continued)

2012-03 IT Network Security Policy

Criteria: An Entity's Information Technology (IT) Policy Manual should include security procedures, and guidelines to establish a stable and secure environment for supporting financial applications.

Condition: We noted that the following were not established in the District's IT Policy Manual:

- Policies relating to user provisioning, disabling/removing system access rights and modifying systems access.
- Policies regarding the periodic review of user access to business applications, including the review of role definitions (view and transaction requirements) for each defined position.

Cause: The security policies are not outlined in the District's IT Policy Manual.

Effect: Risks include the lack of management awareness, lack of agreement to specific security measures, and inaccurate policies and procedures applied to information security requirements. Additionally, there would be a lack of security knowledge across the entity resulting in potential opportunities for security risks.

Recommendation: We recommend that management update the IT Policy Manual to include the following:

- Define the requirement for periodic review of user access to business applications including the review of role definitions (view and transaction requirements) for each defined position using the application.
- Define the requirements for user provisioning, disabling/removing system access rights, and modifying systems access.

Views of responsible officials and planned corrective actions: The District will implement the rest of the processes so that the SAP user provisioning and de-provisioning process follows the original District legacy system paradigm of scheduled reports and regular review of user access by site administrators. Data Security has implemented a procedure whereby each of the ITS locations' user access reports will be printed off and delivered to the appropriate administrator for review annually. The administrator will be required to review the report, indicate necessary changes to user access, make those changes, and then sign the report and scan it for storage in an appropriate folder on the Collaboration Site for auditor review as required. The first reports have already been sent.

The School Board of Miami-Dade County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls (Continued)

2012-04 IT Periodic Review of User Access Rights

Criteria: The District's Network Security Policy requires periodic review of Network (Active Directory) user access rights. General information technology (IT) controls require that processes exist and are followed to allow management to properly identify authorized and unauthorized usage and access to materially relevant financial IT applications and supporting systems.

Condition: We noted reviews of user access right were not being performed for (1) Information Technology Services staff users on Active Directory (including administrators), and (2) business (operational) users of SAP (including a review of the SAP role definitions supporting job functions).

Cause: Lack of adherence to the District's Network Security Policy.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend that management adhere to their established policies and procedures which require periodic review of user access right for materially relevant financial IT applications and supporting systems.

Views of responsible officials and planned corrective actions: Data Security has implemented a procedure whereby each of the ITS locations' user access reports will be printed off and delivered to the appropriate administrator for review annually. The administrator will be required to review the report, indicate necessary changes to user access, make those changes, and then sign the report and scan it for storage in an appropriate folder on the Collaboration Site for auditor review as required. The first reports have already been sent.

The School Board of Miami-Dade County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls (Continued)

2012-05 IT Data Restoration Process

Criteria: General information technology (IT) controls should be designed to provide reasonable assurance that financial data is maintained for completeness, accuracy and validity. Established procedures should require periodic testing of the effectiveness of the data restoration process in order to validate the quality of the duplicate media for financially significant applications and/or data.

Condition: We noted the IT Policy Manual requires that significant IT system applications and/or data be duplicated on a period basis. However, the manual does not specify the frequency for performing the duplications or require preparation of a test plan to validate the quality of the duplicates and documentation of such test results.

Cause: The IT Policy Manual did not specify data restoration requirements at a detailed enough level to address proper ongoing duplication and restoration of significant IT applications and/or data.

Effect: The lack of a strategy for cyclical restoration and testing may expose the organization to operational disruption from loss of data.

Recommendation: We recommend that management update their IT Policy Manual to address the frequency of required data duplication, the preparation of a test plan, and the documentation of test results to validate the quality of the copied media for financially significant applications and/or data.

Views of responsible officials and planned corrective actions: Throughout the year, the District finds it necessary to restore the production environment from a backup. These restores are due to a production failure that requires a restore or system testing in order to imitate the production environment. In fact the District was able to show evidence that backups were used to restore to production. It is for those reasons that the District feels that the quality of its backups is validated regularly throughout the year.

The School Board of Miami-Dade County, Florida

**Appendix B – Status of Prior Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls**

No.	Prior Year's Observations	Observation is Still Relevant	Observation No Longer Relevant
2011-01	Self-Insurance Fund Deficit		X, See 2012-01
2011-02	Domain Password Parameters		X
2011-03	Generic Account and Duplicate User Profiles		X
2011-04	Change Management		X

CONFIDENTIAL

Jose F. Montes-de-Oca, Chief Auditor
Miami-Dade Public Schools
Office of Management and Compliance Audits
1450 NE Second Avenue
Miami, FL 33132

Dear Mr. Montes-de-Oca:

Enclosed you will find fifty (50) bound copies of the management letter for the School Board of Miami-Dade County, Florida for the year ended June 30, 2012.

If you have received a preliminary draft of this report, please destroy all such copies if they have not been returned to us.

Very truly yours,

McGLADREY LLP