Ernst & Young LLP
Suite 3000
201 South Biscayne Boulevard
Miami, Florida 33131

Tel: +1 305 358 4111
Fax: +1 305 415 1411
www.ey.com

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, 2008, and have issued our report thereon dated November 24, 2008, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed in Finding No. 2008-1 below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

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 24, 2008. 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

2008-1 financial statement close process

Observation

In connection with our audit we noted certain deficiencies in the financial statement close process that resulted in financial reporting classification and similar audit differences in the District's basic financial statements, requiring audit adjustments. Examples of significant adjustments that were required to be posted to the financial statements include: reclassification of capital assets from non-depreciable to depreciable, an increase in reserved fund balance of approximately $22 million to properly reflect the fact that corresponding prepaid expenses at the fund level are not available for appropriation, an increase of reserved fund balance for maintenance related encumbrances that had not been recorded, an entry to reverse a receivable and other financing source in the amount of approximately $24 million related to debt proceeds that had not been drawn by the School Board as of year end, and an adjustment to the general fund to properly report approximately $5 million in unrestricted District monies that had previously been erroneously reported in the agency funds.

The financial statement close process is defined as the process where the results of various transactions are summarized, reviewed, consolidated, edited, and prepared into a variety of regulatory and management financial reports. The boundaries of this process may begin with the preparation of the preliminary trial balance and end with the preparation of the financial statements and related disclosures and analyses. The process includes closing the general ledger and preparing the trial balances and any consolidation entries, accumulating and posting journal entries, drafting the financial statements and disclosures, and preparing management's discussion and analyses. A key element of the process is adequate management review and approval of significant closing entries and overall analytical review of the financial statement presentation.

Recommendation

We recommend that management review its current procedures for key processes, including the financial statement closing process, and determine the appropriateness of those processes for deterring, preventing and detecting misstatements (including classification errors), preparing reliable accurate monthly and annual reports and ensuring that such processes are consistent with best practices in the industry. The District should consider computer, computer-dependent and manual controls that affect such processes as part of the current system conversion project. This is particularly important given the matters discussed below Finding No. 2008-2.

Management's response

Management has taken steps to evaluate and enhance the review process for specific transactions to ensure appropriate year end classifications for financial statement reporting. As part of our year end closing, we will implement oversight review sessions to analyze high dollar and or non-routine transactions. As the District moves forward with the implementation of the new ERP System we anticipate that the new system will help automate certain processes allowing for additional review time and to compensate for the staff reductions resulting from the overall economic climate and the District's budgetary constraints.

2008-2 deteriorating financial condition

Observation

According to Chapter 10.800, Rules of the Auditor General, the scope of the financial audit of the District must include the use of financial condition assessment procedures in determining whether deteriorating conditions exist pursuant to Section 218.39(5), Florida Statutes. Deteriorating financial condition is defined in Chapter 10.800 as a circumstance determined as of the fiscal year end that significantly impairs a district school board's ability to generate enough revenues to meet its expenditures without causing a condition described in Section 218.503(1), Florida Statutes, to occur. As required by Chapter 10.800, our audit of the District's 2008 basic financial statements included both financial condition assessment procedures as well as an analysis to determine whether or not the District met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. While our procedures did not indicate that the District met one or more of the conditions described in Section 218.503(1), Florida Statutes, as of June 30, 2008, we did note a continuing decline in certain key balances, including a significant decline in unreserved General Fund fund balance during the 2008 fiscal year, that indicate deteriorating financial conditions as defined herein. The following trend information for certain key measures over the past four fiscal years clearly shows the results of the deteriorating conditions.

	June 30 (in thousands)			
	2008	**2007**	**2006**	**2005**
Total unreserved fund balances, excluding special revenue funds	$ 3,686	$ 74,235	$ 353,907	$ 608,009
General fund balance:				
Reserved	$ 24,451	$ 53,500	$ 85,624	$ 86,821
Unreserved	8,179	83,881	109,399	135,246
Total	$ 32,630	$ 137,381	$ 195,023	$ 222,067
Net assets, excluding investments in property and equipment:				
Unrestricted	$ (366,589)	$ (263,544)	$ (166,372)	$ (195,237)
Restricted	356,235	342,869	457,025	594,755
Net	$ (10,354)	$ 79,325	$ 290,653	$ 399,518

Recommendation

If the District does not take immediate steps to address the deteriorating conditions noted above, it is reasonably possible that the District could be determined to have met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes as of the end of the current fiscal year. Action items in the short term to consider include: 1) performing a detailed review of the FY 2009 budget projections with comparisons to actual results year-to-date and preparing any necessary budget amendments for the School Board's review, 2) immediately determining the need for any revisions to line-item appropriations using available mid-year actual financial data, with a focus on targeting general fund and total unreserved fund balance targets, and 3) continual monitoring of budget and actual expenditures and revenues, at the cost center level, by senior executives on at least a monthly basis through the end of the year. On a long term basis, it is critical that the District continue to work to improve its financial management systems so that better and timelier financial information is available to appropriately monitor the District's financial position and changes in financial position. In addition, as we have noted in prior recommendations, financial process modifications and improvements must be made a critical element of the District's current financial management system project.

Management's response

The District has experienced a significant decline in State revenue over the last 5 years including the loss of the District Cost Differential (DCD) and the loss of revenue associated with a decline in the number of students attending school in Miami. During the past 5 years, the District implemented new programs to help student achievement including Secondary School Reform and the School Improvement Zone. These programs are costly but important to student achievement. Additionally, the State mandated that the District meet Class Size Reduction requirements that significantly drop class size but add thousands of teachers to the District. The District also entered into 3 year contracts with all their unions to provide significant salary increases to staff.

Subsequent to the decisions that laid out the above framework, the economy nationwide began a serious downturn. The State reduced the District's budget twice in FY2007-08 as a result of the decline. Because the majority of District resources are for teacher's salaries, the District decided not to disrupt student's education mid-year by layoffs and the revenue cut of $65 million was absorbed through non full-time salary cuts and a reduction in the contingency reserve. Additionally, events occurred at year end, such as a tax collection shortfall, that further impacted the contingency reserve.

Because of the aforementioned events and the significantly depleted unreserved fund balance at year end, the Administration immediately took steps to restore the reserve and further reduced costs as they finalized the FY2008-09 Adopted budget. The FY2008-09 Adopted Budget increases the unreserved fund balance to $39.5 million as a first step to re-stabilizing the District. The Administration also drastically cut Central Administration and selected non-classroom expenditures for a total expenditure reduction of $202 million.

Since the adoption of the budget, the District has appointed a new Superintendent who was compelled to immediately convene a budget review workgroup to validate the assumptions and representations contained in the adopted budget. The work group included several retired Florida CFO's, one who was been re-hired by the District to lead the new finance team.

The work group had several significant concerns with the budget as adopted. The salary lapse factor was significantly overstated by approximately $43 million. The assumption related to property tax revenue collections was unrealistic given the state of the real estate market and significant number of foreclosures in South Florida representing a revenue loss of approximately $13 million. The revenue figures included in the budget assumed that the District would prevail in its disagreement with the Florida Department of Education and the Florida Department of Revenue on the retroactive implementation of Statute 1011.62(4), which would mean an additional revenue loss of approximately $24 million. In addition to these technical defects in the adopted budget, the state has informed the District that a state revenue holdback in the amount of $46 million would take effect December 10, 2008, and interest income estimates have deteriorated. All of the aforementioned conditions and some smaller items put the new administration in a situation where the budget was out of balance by approximately $158 million. On November 18, 2008, the Superintendent took the first step to remedy the budget defects by recommending a budget resolution to the School Board to amend and correct the budget. That Board item cut expenditures by $93 million.

The new administration has also directed staff to complete monthly projections and improve the model used to complete those projections. Projection meetings must be held monthly with participation of the Chief Financial Officer, Chief Budget Officer, the Controller, the Risk and Benefits Officer and the Treasurer. The first full projection cycle is the end of November since that is the first month all the school based allocations and positions are entered into the computer and final student counts are available.

B. Status of prior year recommendations

The following is a summary of the recommendations communicated in prior year's management letters 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		X
2005-1	ERP Project Implementation Best Practices for Public Sector Entities		X
2007-1	Accounting Staff/Financial Statement Close Process	X	
2007-2	Use of an Internal Service Fund for the Self Insurance Program	X	
2007-3	Program Development-Implementation		X

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

	Recommendation	Management's response
2007-1 Accounting Staff/Financial Statement Close Process	Prior year recommendation: We recommended 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 has taken steps to evaluate and enhance the review process. Oversight sessions to perform analysis of high dollar and or non-routine transactions will be conducted through out the year and specifically during year end. As mentioned in 2008-1 it is anticipated that the implementation of the ERP System will automate certain process allowing additional review time with a reduced staff.
2007-1 Accounting Staff/Financial Statement Close Process (continued)	Current year status: Our audit procedures disclosed reporting errors that required correction through adjusting journal entries and modifications to disclosure in the basic financial statements and notes. See the related current year finding We acknowledge the staffing challenges faced by the accounting division, but we reiterate the importance of the recommendations made in the prior year.	
2007-2 Use of an Internal Service Fund for the Self Insurance Program	Prior year recommendation: We recommended 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. Current year status: This recommendation is still under consideration as part of the current financial management system implementation project. We continue to believe this recommendation should be implemented, particularly in light of the financial condition matters noted in the previous section of the management letter.	Management will implement an Internal Service Fund when the new ERP System is operational.

C. Other required communications

The Rules of the Auditor General (Section 10.804(1) (f)1.) state that a management letter shall include a statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The status of recommendations made in prior year management letters have been addressed in Section B above.

The Rules of the Auditor General (Section 10.804(1)(f)2.) state that a management letter shall include a statement 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. Management of the District has determined that the District is not in a state of financial emergency as defined in Section 218.503(1), Florida Statutes. During the course of our audit of the District's 2008 basic financial statements, nothing came to our attention that would cause us to believe that the District is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes.

The Rules of the Auditor General (Section 10.804(1)(f)3.) require that a management letter include a statement as to whether or not the District complied with Section 218.415, Florida Statutes, regarding the investment of public funds. 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.

The Rules of the Auditor General (Sections 10.804(1)(f)4 through 6.) state that the management letter shall include the following matters if not already addressed in the report of independent certified public accountants on compliance and on internal control over financial reporting: recommendations to improve financial management, accounting procedures, and internal controls; violations of laws, rules, regulations, and contractual provisions or abuse that have occurred or are likely to have occurred, were discovered within the scope of the financial audit, and may or may not have materially affected the basic financial statements; improper expenditures discovered within the scope of the financial audit that may or may not materially affect the basic financial statements; and other matters requiring correction that may or may not materially affect the basic financial statements including improper or inadequate accounting procedures, failures to properly record financial transactions, and other inaccuracies, shortages, and instances of fraud representing reportable conditions discovered by, or that come to the attention of, the auditor. We noted certain matters that are required to be disclosed by Rules of the Auditor General relating to recommendations to improve financial management, accounting procedures, and internal controls, which are reported in Sections A. and B. of this management letter.

The Rules of the Auditor General (Sections 10.804(1)(f)7.) state that the management letter shall include information regarding the auditor's application of financial condition assessment procedures pursuant to Rule 10.805(6), including a statement that the auditor applied financial condition assessment procedures and, if deteriorating financial conditions are noted, a statement that the district school board's condition is deteriorating and a description of the conditions causing the auditor to make this conclusion. In connection with our audit, we applied financial condition assessment procedures pursuant to Rule 10.805(6), and the results of those procedures disclosed that the District's financial condition is deteriorating due to continuing and significant declines in total unreserved fund balances and unreserved general fund balance as more fully described in Finding No. 2008-2 in Section A. above.

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 24, 2008