

**ASSURANCE AND ADVISORY
BUSINESS SERVICES**

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

**Management Letter
Year Ended June 30, 2006**

 **ERNST & YOUNG**
Quality In Everything We Do

Management Letter and State Reporting Requirements

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

We have issued 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, 2006, and have issued our report thereon dated October 20, 2006, which referred to our use of the reports of other auditors. In planning and performing our audit of the basic financial statements of the School Board as of and for the year ended June 30, 2006, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on 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 *Governments Auditing Standards* dated October 20, 2006. 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

2006-1 Accounting for Other Post-Employment Benefits

Observation

In addition to pensions, many state and local governmental employers, including the School Board, provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (GASB 45), which establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This new pronouncement is expected to have a significant effect on many local governments, like the School Board, that currently fund OPEB on a pay-as-you-go basis. The School Board is required to implement GASB 45 in year ending June 30, 2008.

Recommendation

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.

Management's Response

Management agrees with this recommendation. The School Board is in the process of contracting with an actuarial firm to perform an actuarial valuation that will provide an estimate of the School Board's liability for Other Post-Employment Benefits (OPEB) upon the adoption of GASB 45. Management will continue to evaluate alternatives (i.e., funding options) and will make decisions based on the results of the actuarial valuation. Management has obtained both the GASB Statement 45 and the Implementation Guide to assist in the implementation process.

B. STATUS OF PRIOR YEAR RECOMMENDATIONS

The following is a summary of the June 30, 2005 recommendations, as communicated in the prior year management letter dated November 4, 2005, 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
2005-1	Project Implementation Best Practices for Public Sector Entities	X	
2004-1	Financial Accounting Computer Systems		X
2003-2	Construction Accounting		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
<p>2005-1 Project Implementation Best Practices for Public Sector Entities</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. • 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. 	<p>Management is in the process of implementing this recommendation. The ERP project has been designed in multiple phases. Phase I consists of a Business Practice Review (BPR) of all key finance and human resources functions. On December 14, 2005, the School Board approved a contract with a consulting company to assist the School Board in this endeavor. This BPR was conducted from January 2006 through April 2006 and included documenting the existing “as is” processes, examining best practices in both public and private sector enterprises, and constructing a gap analysis to identify the greatest opportunities for process improvement. Based upon the work completed in Phase I, the School Board was able to create an RFP for an ERP software package from the perspective of which software is best suited to closing the School Board’s most pressing and important gaps. Phase II consisted of the RFP process for an ERP software solution. After a diligent evaluation process, the School Board approved SAP as the preferred ERP software vendor on September 13, 2006. In turn, we have just begun Phase III of the ERP project in which we are conducting an RFP process to identify a consulting company to work with School Board staff as a system integrator. The School Board envisions completing Phase III by the first quarter of 2007. To insure that controls are a key part of the process, the Office of Management and Compliance Audits has continued to serve as a member of the project steering committee, the group that will oversee the creation and execution of the project plan.</p>

B. STATUS OF PRIOR YEAR RECOMMENDATIONS (continued)

	Recommendation	Management’s Response
<p>2005-1 Project Implementation Best Practices for Public Sector Entities (continued)</p>		<p>The Chief Auditor has agreed to take on this role and has provided an additional staff member from his office to oversee day-to-day operations on the ERP project. This is a lengthy project and implementations in organizations comparable to the School Board in size and scope traditionally take between 27 to 40 months to complete all of the phases.</p>
<p>2002-4 Tracking and Accounting for Building and Building Improvements</p>	<p>It was recommended that the School Board should implement procedures to track building and building improvements that are no longer in existence or use, so as to properly account for these assets in its financial records.</p>	<p>A web application is currently under development for a building component, this application will automate the process of extracting information from other systems to create an inventory of buildings and calculate the associated depreciation. This process will address GASB-34 requirements. This application is in the testing process and will be implemented in fiscal year 2006-07.</p>

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. No matters were noted that are not inconsequential considering both quantitative and qualitative factors including the following:
 - violations of laws, rules, regulations, and contractual provisions that have occurred or are likely to have occurred or 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;
 - recommendations to improve financial management, accounting procedures, and internal controls;
 - deficiencies in internal control that are not reportable conditions including improper or inadequate accounting procedures or failures to properly record financial transactions.

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

October 20, 2006



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