

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

Audit Plan and AU 260 Communication - Auditor's Communication With Those Charged With Governance

For the fiscal year ended June 30, 2018



July 17, 2018

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Executive Summary

This document outlines the audit planning process and communicates to The School Board of Miami-Dade County, Florida (the “School Board”) Audit and Budget Advisory Committee, the Superintendent, management, and members of the engagement team, the aspects of our preliminary approach and scope of services to be provided in conducting the audit of the basic financial statements of the School Board, as of and for the year ended June 30, 2018.

As part of the development of this audit plan, we performed the following:

- Performed inquiries with key members of Management;
- Reviewed reports issued by the Office of Management and Compliance Audits;
- Read prior year’s comprehensive annual financial report; and
- Held internal team discussions and performed preliminary risk assessment.

Scope of Services for Fiscal Year 2018

The scope of services for fiscal year 2018 include the following:

- Perform an audit of the School Board's basic financial statements;
- Perform a compliance audit of the School Board's Federal Expenditures under the Uniform Guidance;
- Report on the School Board's compliance in accordance with the rules of the Auditor General of the State of Florida;
- Perform an examination of the School Board's compliance with Section 218.415, Florida Statutes.

Communication

Effective communication between our Firm, the Superintendent, and the School Board is important to understanding matters related to the audit and in developing a constructive working relationship.

Your insights may assist us in understanding the School Board and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate with us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud or abuse, or any concerns you may have about the integrity or competence of management.

Auditor's Communication Responsibility

We will timely communicate to you any of the following:

- Fraud involving management and other fraud that causes a material misstatement of the financial statements,
- Illegal acts,
- Instances of noncompliance, or abuse that come to our attention (unless they are clearly inconsequential)
- Any disagreements with management
- Other serious difficulties encountered in performing the audit
- Any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit
- Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process. Such matters will be communicated to you in writing after the audit.

Additional Required Communications with the Audit and Budget Advisory Committee and Superintendent

Auditing Standard AU 260, *The Auditor's Communication With Those Charged With Governance*, require the auditor to provide certain information regarding the conduct of the audit to those who have responsibility for oversight of the financial reporting process. At the completion of the audit, the following matters will be communicated:

- Significant findings resulting from the audit, if any.
- The auditor's views about qualitative aspects of the School Board's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.
- Significant difficulties, if any, encountered during the audit.
- Uncorrected misstatements with management, other than those the auditor believe are not material.
- Disagreements with management, if any.
- Material misstatements that were brought to the attention of management as a result of audit procedures and corrected.
- Management's consultations with other accountants.
- Significant issues, if any, arising from the audit that were discussed, or were the subject of correspondence with management.
- Management's Representation Letter.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm along with our SBE firms and all of our employees comply with applicable professional independence standards. Our policies address financial interest, business and family relationships, and non-audit services that may be thought to bear on our independence. For example, partners and professional employees of RSM US LLP; Anthony Brunson P.A; and Rodriguez, Trueba & Company LLP are restricted in their ability to own a direct financial interest or a material indirect financial interest in a client or any affiliates of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with Firm policy. In addition, our policies restrict certain non-audit services that may be provided by RSM US LLP; Anthony Brunson P.A; and Rodriguez, Trueba & Company LLP, and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Concept of Materiality in Planning and Executing the Audit

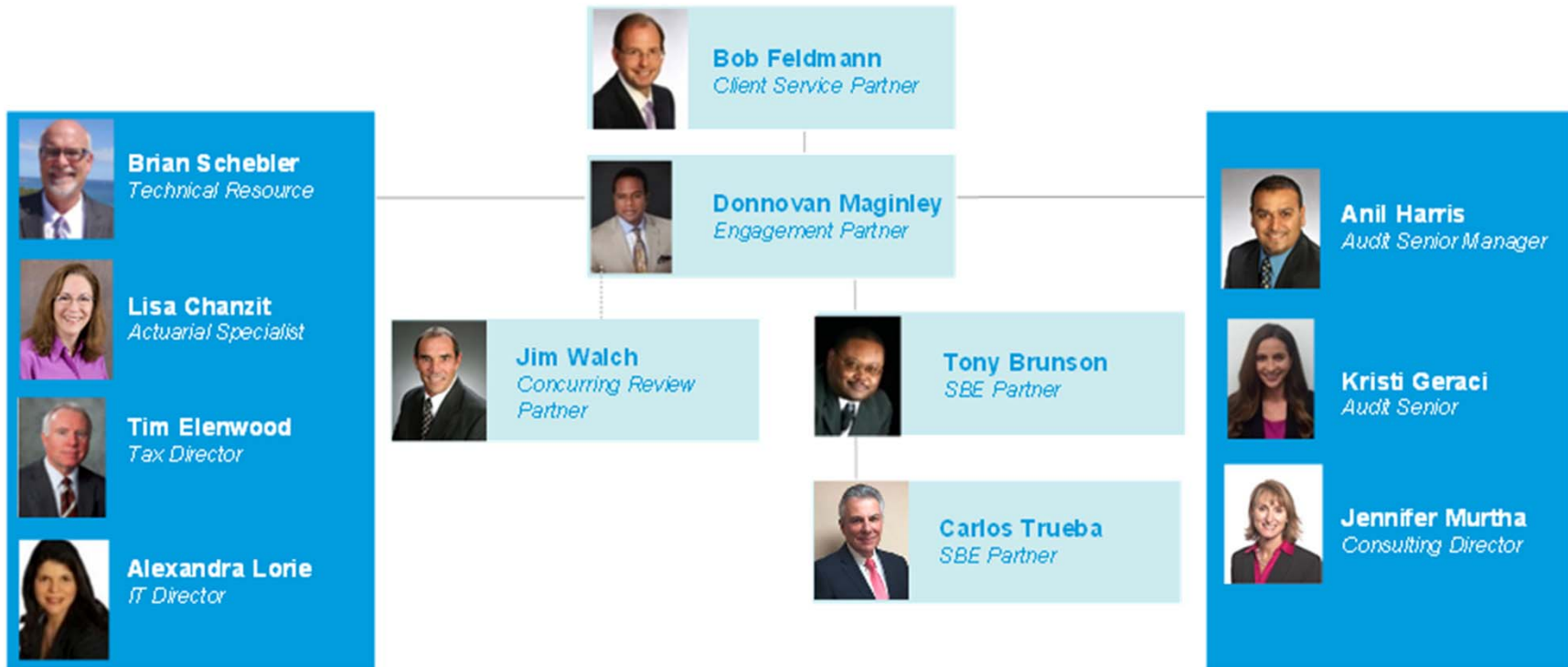
We apply the concept of materiality both in planning and performing the audit, evaluating the effect of identified misstatements on the audit, and the effect of uncorrected misstatements, if any, on the financial statements, and in forming the opinion in our report.

Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. We establish performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly immaterial. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Audit Team

The following is our organizational chart presenting all key personnel, including their titles and functions to be performed on this audit.



Basic Users

The audit is intended to serve the basic users as follows:

Users	Auditor
Citizens, Taxpayers, Bondholders, Federal and State Agencies	Issue an Independent Auditor's Opinion and other reports that provide reasonable assurance that the School Board's basic financial statement is fairly stated.
School Board Members and the Audit and Budget Advisory Committee	Assists the School Board members and the Audit and Budget Advisory Committee, through our work and reports, in discharging its corporate governance and compliance responsibilities.
Superintendent and Management	Provide observations and advice on financial reporting, accounting, and internal control and compliance matters. Share ideas and "best practices" from our experience.

Auditor's Responsibility Under *Government Auditing Standards* and Auditing Standards Generally Accepted in the United States of America

The primary objective of our audit is to express an opinion on the fair presentation of the basic financial statements of the School Board, in accordance with accounting principles generally accepted in the United States of America.

We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Furthermore, the audit will meet the requirements of *Florida Statutes, Rules of the Florida Auditor General, the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as deemed applicable.

In carrying out this responsibility, we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute assurance that material misstatements are detected. We have no responsibility to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

Management's Responsibilities

As part of the audit process, management is responsible for the following:

- The preparation of the School Board's basic financial statements;
- Establishing and maintaining effective internal control over financial reporting and compliance;
- Identifying and ensuring that the School Board complies with the laws and regulations applicable to its activities;
- Making all financial records and related information available to the auditor;
- Providing assistance to the auditor in connection with the audit process;
- Providing the auditor with a letter that confirms certain representations made during the audit;
- Adjusting the basic financial statements to correct material misstatements and affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements taken as whole; and
- Maintaining compliance with the provisions of grant agreements and other relevant contracts.

Deliverables

Planned deliverables to the School Board:

- Independent auditor's report on the School Board's basic financial statements;
- Management's representation letter;
- Management letters in accordance with the rules of the Auditor General of the State of Florida; and
- Report to the Audit and Budget Advisory Committee
- Independent auditor's report on the Single Audit Act, and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), the Florida Single Audit Act, and Chapter 10.550, Rules of the Auditor General.
- Independent auditor's report on the examination of the School Board's compliance with Section 218.415, Florida Statutes.

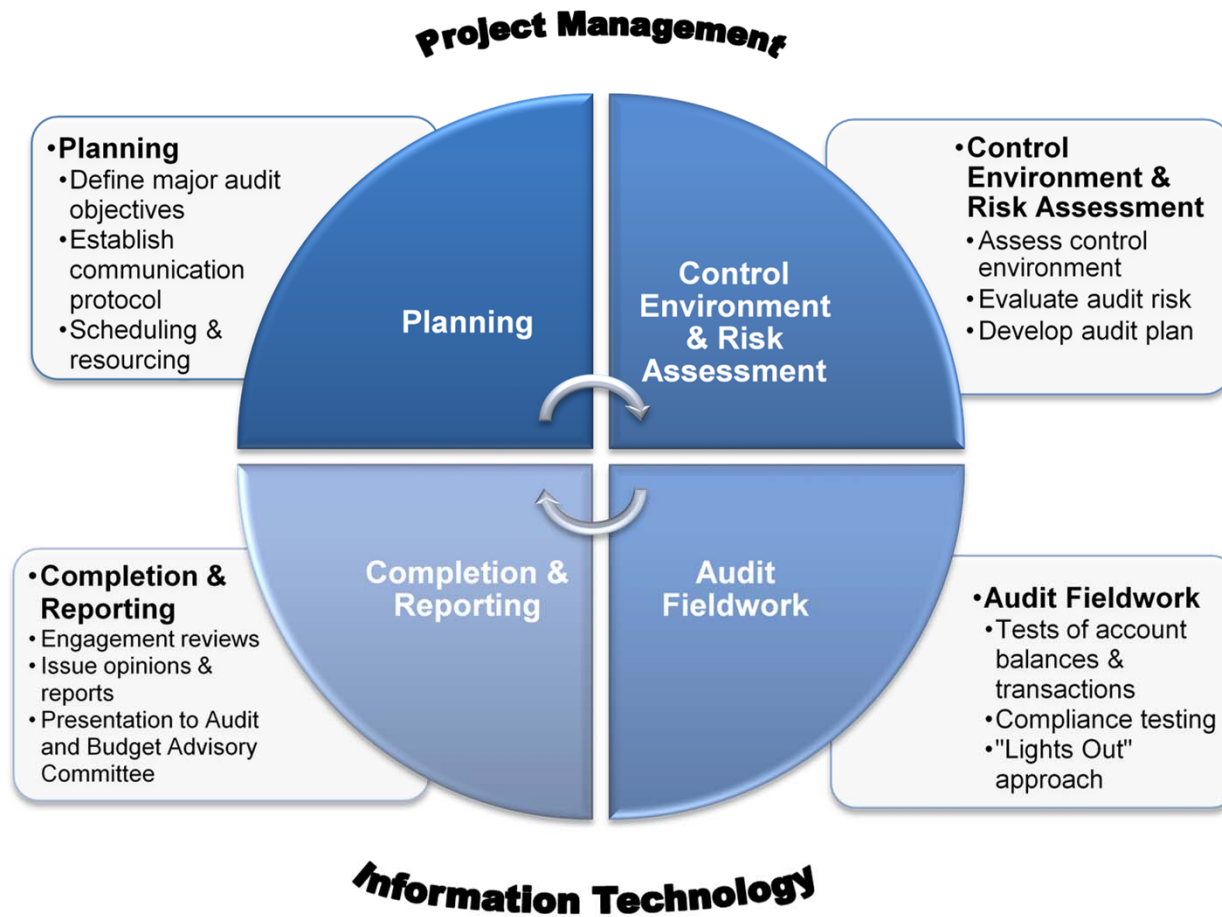
Engagement Timetable

The following chart depicts our proposed audit timeline for fiscal year 2018 which may be modified based on discussion with School Board staff during our audit planning meetings.

Audit Stage	July	Sept	Oct	Nov	Dec
Planning Phase:					
Present detailed audit plan to the Audit and Budget Advisory Committee	■				
Attend monthly Audit and Budget Advisory Committee meetings	■	■	■	■	■
Interim work	■				
Fieldwork Phase:					
Perform final fieldwork		■	■	■	
Perform bi-weekly status meetings with management		■	■	■	
Reporting Phase:					
Exit conference				■	
Final reports				■	
Presentation to the Audit and Budget Advisory Committee:					■
Financial Statements					■
Management Letter and Single Audit Reports					■

Key Elements in Our Audit Methodology

The following diagram depicts an overview of our audit approach. Embedded within the approach is our overall project management as well as our utilization of information technology and computer-assisted audit techniques:



Audit Approach

Preliminary Phase

Planning Activities and Risk Assessment:

- Review interim financial information and prior year financial statements to identify accounting issues, if any;
- Review Board and Audit and Budget Advisory Committee minutes;
- Obtain copies of all new significant agreements, contracts, and pertinent documents, and evaluate the effects of new contracts on the scope of the audit;
- Review prior year compliance reports and management letter and obtain status updates from management;
- Highlight accounting and reporting matters and refine our understanding of audit risks;
- Meet with finance department personnel to coordinate schedules to be prepared; and
- Attend the School Board Audit and Budget Advisory Committee meetings to identify areas of concern and emphasis, fraud risk areas, new developments, planned operations, and strategic changes.

Audit Approach (continued)

Preliminary Phase (continued)

Planning Activities and Risk Assessment:

- Identify critical audit objectives;
- Obtain an understanding and document internal accounting control systems in place;
- Assess materiality considerations;
- Perform compliance tests of internal controls where appropriate;
- Identify substantive procedures to be performed;
- Coordinate IT audit testing of IT general controls;
- Perform interim review of significant audit areas;
- Discuss interim findings and changes to our audit plan with management;
- Evaluate management's basis for developing estimates for reasonableness and consistency.
- Evaluate the effect of changes in management on audit risk

Audit Approach (continued)

Final Fieldwork and Reporting Phase

Fieldwork and Reporting:

- Confirm account balances
- Test account reconciliations
- Perform test of details
- Vouch significant transactions
- Perform substantive analytical procedures
- Evaluate third-party service organization reports
- Test and evaluate key estimates and management's key assumptions
- Perform compliance testing
- Draft independent auditor's reports on the CAFR and Single Audit report
- Draft single audit reports (when applicable)
- Draft management letter

Areas of Emphasis

Internal Controls

- Obtain and document our understanding of controls over key processes (cash receipts & disbursements, payroll, self-insurance, grant/program management, etc.)
- Determine test procedures and evaluate IT general controls
- Review reports issued by the Office of Management and Compliance Audits

Estimates

- Budgets
- Self-insurance claims liability
- Compensated absences
- Litigation and other contingencies
- Retirement and other employee benefits

Routine Processes / Transactions

- Cash receipts and disbursements
- Revenues
- Payroll
- Purchases and accounts payables
- Property & equipment management
- Grant administration and compliance

Non-Routine Processes / Transactions

- Debt issuance and compliance with covenants
- Investments (portfolio management)
- Significant and unusual contracts
- Interlocal agreements

Significant Accounting Areas

Accounting Area	Risk	Audit Procedures
Self-insurance Claims Liability (\$183M*)	<ul style="list-style-type: none"> ▪ The School Board's self-insurance liability for general liability, employee health, workers' compensation, and general property and casualty is misstated ▪ Sufficient resources not available to satisfy outstanding claims ▪ Exposure to risk is not reflected in accrual estimate 	<ul style="list-style-type: none"> ▪ Review agreements and School Board Policy to ensure proper accrual ▪ Perform competence assessment of actuary ▪ Assess the propriety and completeness of data sent to actuary ▪ Evaluate actuarial reports and reasonableness of assumptions utilized ▪ Evaluate the amounts recorded compared to actuary's computation/estimates
Revenue (Taxes, Intergovernmental, etc.) (\$3.7B*)	<ul style="list-style-type: none"> ▪ Revenue is recognized improperly ▪ Unavailable/unearned revenue misstated 	<ul style="list-style-type: none"> ▪ Obtain an understanding of the School Board's revenue recognition policy and assess its compliance with GAAP ▪ Perform subsequent receipts/cut-off testing ▪ Confirm significant revenue balances ▪ Perform test of details
Capital Assets and Construction Activity (\$4.5B*)	<ul style="list-style-type: none"> ▪ Capital asset purchases not being capitalized ▪ Completed construction projects not being transferred to depreciable asset categories ▪ Impairment of capital assets not identified/ reported ▪ Depreciation not properly determined 	<ul style="list-style-type: none"> ▪ Test additions/deletions to capital assets ▪ Test depreciation expense ▪ Test completed projects and transfers ▪ Assess the applicability of GASB 51 - <i>Accounting and Financial Reporting for Intangible Assets</i>

* Prior year reported balance

Significant Accounting Areas (continued)

Accounting Area	Risk	Audit Procedures
Accounting for Retirement (\$1.7B) & Other Employee Benefits (\$44.6M*)	<ul style="list-style-type: none"> Amounts not properly estimated and recorded based on terms of agreements and School Board Policy 	<ul style="list-style-type: none"> Perform competence assessment of actuary Assess the propriety and completeness of data sent to and utilized by the actuary Evaluate actuarial reports and reasonableness of assumptions and models utilized Evaluate the amounts recorded compared to actuary's computation/estimates
Interfund Transfers (\$413.7M*)	<ul style="list-style-type: none"> Noncompliance with applicable laws, agreements, and School Board policy 	<ul style="list-style-type: none"> Test transfers to ensure compliance with applicable laws, agreements and School Board Policy Agree interfund transfers to annual adopted School Board budget
Fund Balance Accounting and GASB 54 - <i>Fund Balance Reporting and Governmental Fund Type Definitions</i> (\$980.9M*)	<ul style="list-style-type: none"> Equity transactions are not properly classified and/or presented in the appropriate categories Fund Balance policies and procedures are not properly defined 	<ul style="list-style-type: none"> Review minutes, statutes, debt indentures, and grant contracts to ascertain proper fund balance classification and reporting Review appropriate documentation to support fund balance designations Inquiry about the existence of restrictions and designations and ensure proper disclosure of such amounts

* Prior year reported balance

Significant Accounting Areas (continued)

Accounting Area	Risk	Audit Procedures
Cash and Investments (\$1.3B*)	<ul style="list-style-type: none"> Investments are not properly valued Investments and related income, gains and losses are not reported in the appropriate net position class Non-marketable investments lack adequate support for the valuation Investments purchased/held not in compliance with School Board Policy 	<ul style="list-style-type: none"> Perform test of internal control over treasury functions Test management's compliance with the School Board's investment policy Test investment valuations and review management's fair value assessment of those securities whose fair value is not readily determinable Confirm significant cash and investment balances
Liabilities and Expenditures (\$6.3B* and \$3.7B*, respectively*)	<ul style="list-style-type: none"> Liabilities and expenditures not reported in the proper period Possible budget violations 	<ul style="list-style-type: none"> Determine if there are any items in dispute at year end Review disbursements occurring subsequent to year end to test for unrecorded liabilities Obtain an explanation for significant variances in account balances occurring between fiscal years
Payroll Expenditures (\$1.8B*)	<ul style="list-style-type: none"> Improper payments to employees Liabilities and expenditures not reported in the proper period 	<ul style="list-style-type: none"> Perform internal control testing to assess whether there is proper supervisory review and approval of payroll transactions Test the accuracy and completeness of current year payroll balances

* Prior year reported balance

Significant Accounting Areas (continued)

Accounting Area	Risk	Audit Procedures
Accounting for Derivative Instruments and Hedge Activities (\$20.4M*)	<ul style="list-style-type: none"> ▪ Improper accounting/valuation of derivative instruments/transactions ▪ Improper financial statement presentation of derivative instruments/transactions 	<ul style="list-style-type: none"> ▪ Assess the accounting of derivative instruments and hedging activities ▪ Review agreements and assess the propriety of financial statement disclosures ▪ Evaluate specialists reports and reasonableness of assumptions utilized in valuing the instrument ▪ Perform competence assessment of specialists used ▪ Evaluate the effectiveness of the hedging instrument
Compliance with Bond Agreements (\$3.7B*)	<ul style="list-style-type: none"> ▪ Non-compliance with applicable bond agreement covenants ▪ Bond proceeds used for unallowed activity or costs 	<ul style="list-style-type: none"> ▪ Review bond agreement and test the School Board's compliances with applicable requirements/covenants ▪ Test expenditures funded with bond proceeds for compliance with bond agreements
Full Time Equivalent Determinations (FTE)	<ul style="list-style-type: none"> ▪ Amounts are not determined in accordance with Florida Department of Education Guidelines 	<ul style="list-style-type: none"> ▪ Review reports issued by the Office of Management and Compliance Audits regarding FTE audits ▪ Review Auditor General's most recent FTE Report

* Prior year reported balance

Significant Accounting Areas (continued)

Accounting Area	Risk	Audit Procedures
Results from Operations / Going Concern	<ul style="list-style-type: none"> ▪ Revenue does not equal or exceed expenditure ▪ Deteriorating financial condition 	<ul style="list-style-type: none"> ▪ Perform Financial Condition Assessment ▪ Review budget to actual statements
Tax Compliance	<ul style="list-style-type: none"> ▪ Noncompliance with tax provisions 	<ul style="list-style-type: none"> ▪ Assess management's tax risk assessments
Implementation of New Applicable Governmental Accounting Standards Board (GASB) Statements: <ul style="list-style-type: none"> ▪ GASB Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions (OPEB)</i> ▪ GASB issued Statement No. 85, <i>Omnibus 2017</i> 	<ul style="list-style-type: none"> ▪ Improper application and/or implementation of applicable GASB statements 	<ul style="list-style-type: none"> ▪ Assess the valuation of reported balances and propriety of disclosures related to OPEB liabilities, as required by GASB 75. ▪ Assess the applicability and propriety of financial statement reporting as required by GASB 85.

Significant Accounting Areas (continued)

Accounting Area	Risk	Audit Procedures
IT Systems	<ul style="list-style-type: none"> ▪ Unauthorized logical and physical access ▪ Improper management of user access rights (assignment, monitoring, and changes) ▪ Unauthorized changes that bypass change management requirements ▪ Data, transactions, and programs that are necessary for financial reporting cannot be recovered 	<ul style="list-style-type: none"> ▪ Meet with IT management to discuss changes within the organization, processes, systems, and controls impacting financial reporting ▪ Meet with IT management to discuss compliance with American Disabilities Act (ADA) requirements ▪ Test access administration controls over configuration of access rules, access administration, access monitoring, super user access, and physical access ▪ Test change management controls ▪ Test system development control for any new upgrades, conversions, or acquisitions impacting financial reporting (as applicable) ▪ Test backup application processing related to financial reporting and the School Board's ability to recover data in case of an incident or disaster ▪ Test system application controls over SAP payroll

Fraud Considerations and Risk of Management Override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of misstatement, whether caused by error or fraud (*SAS No. 99, Consideration of Fraud in a Financial Statement Audit*).

Our audit procedures will encompass requirements of SAS No. 99 which includes:

- Brainstorming among engagement team to identify fraud risk areas;
- Gathering information to facilitate the identification of and responses to fraud risk;
- Perform computer assisted testing of journal entries to identify significant and/or unusual transactions;
- Perform walkthroughs and test of controls to address the risk of management override of controls;
- Inquiry of various members of management and the Audit and Budget Advisory Committee their assessment of audit and fraud risk factors.



Open Discussion



RSM US LLP

801 Brickell Avenue Suite 1050
Miami, Florida 33131
305.569.7986

www.rsmus.com

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