

# The School Board of Broward County, Florida

Management Letter  
June 30, 2014

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**Management Letter Required By  
Chapter 10.800 of the Rules of the  
Auditor General of the State of Florida**

To the Chairperson and Members of  
The School Board of Broward County, Florida

**Report on the Financial Statements**

We have audited the financial statements of the School Board of Broward County, Florida (the "District"), as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated November 25, 2014. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units indicated above, is based solely on the reports of the other auditors. Our report does not address their respective internal control or compliance.

**Auditor's Responsibility**

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.800, Rules of the Auditor General.

**Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance for each Major Federal Program and Report 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 25, 2014, should be considered in conjunction with this management letter.

**Prior Audit Findings**

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 annual financial audit report. The status of recommendations made in the preceding annual financial audit has been noted in Appendix B to this report.

**Financial Condition**

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the District 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 District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.804(1)(f)5.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures for the district school board. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. The assessment was done as of the fiscal year end.

## **Transparency**

Section 10.804(1)(f)6., Rules of the Auditor General, requires the auditor to state whether or not the District complied with transparency requirements (Section 1011.035, Florida Statutes, provides that district school boards include a plain language version of each proposed, tentative, and official budget that describes each budget item in terms that are easily understandable to the public). In connection with our audit, we determined that the District complied with transparency requirements.

## **Other Matters**

Section 10.804(1)(f)3., 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 under the heading "Current Year's Recommendations to Improve Financial Management."

Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

## **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the District School Board members, and applicable members of management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "McGladrey LLP".

Fort Lauderdale, Florida  
November 25, 2014

**The School Board of Broward County, Florida**

**Appendix A – Current Year’s Recommendations to Improve Financial Management  
Fiscal Year Ended June 30, 2014**

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<b>No.</b>	<b>Current Year's Observations</b>
2014-01	User Access Reviews
2014-02	Restorations
2014-03	Review of Accounts Receivable & Due From Other Governmer
2014-04	Self Insurance Accounting and Reporting

**2014-01 User Access Reviews**

**Criteria:** Access rights to the organization’s relevant financial reporting applications or data are reviewed periodically by management.

**Condition:** Domain administrator access is being reviewed by management, but not documented.

**Cause:** There is no procedure in place that requires management to review domain administrator access and formally document the review performed and results obtained.

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

**Recommendation:** We recommend that management performs a review of domain administrator access at least annually in order to prevent unauthorized use of system access. Moreover, management should formally document the review performed over user access rights, including the documentation of when the access review was performed, who performed the review, and document any access changes that are required.

**Views of Responsible Officials and Planned Corrective Actions:** The Information & Technology Department documented the domain administrator access rights review process, so that the review will occur at least annually and the review will include the documentation of when the access review was performed, who performed the review, and documentation of any access changes required.

**The School Board of Broward County, Florida**

**Appendix A – Current Year’s Recommendations to Improve Financial Management (Continued)**  
**Fiscal Year Ended June 30, 2014**

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**2014-02 Restorations**

**Criteria:** Backup procedures are in place so that data, transactions and programs that are necessary for financial reporting can be recovered.

**Condition:** Although there are procedures in place for performing a disaster recovery test on an annual basis, it was not performed in FY’14 by management. As a result, backup media was not tested to ensure data can be recovered.

**Cause:** The annual disaster recovery test was postponed for FY’14.

**Effect:** Risks include loss of data and the inability to recover backup data in case of an incident or emergency.

**Recommendation:** We recommend that management performs testing to ensure that backup media can be recovered at least annually. Moreover, management should formally document the procedures performed and the results obtained from the test. We also recommend this testing be performed before the start of the annual hurricane season.

**Views of Responsible Officials and Planned Corrective Actions:** The disaster recovery exercise was successfully executed on 12/2/2014 using the SunGard Availability Services facility located in Philadelphia. The procedures performed and the results from the test were fully documented. Information & Technology will work with SunGard to schedule the 2015 Disaster Recovery test prior to June 1<sup>st</sup> as recommended in the 2014 Management Letter.

**The School Board of Broward County, Florida**

**Appendix A – Current Year’s Recommendations to Improve Financial Management (Continued)**  
**Fiscal Year Ended June 30, 2014**

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**2014-03 – Review of Accounts Receivable and Due From Other Governments**

**Criteria:** The District should have internal control policies and procedures in place to provide reasonable assurance that amounts classified as receivables or due from other governments are reviewed every year to determine if they are truly collectible and that there is adequate supporting documentation for each account. Receivables should be reported at their net realizable value at year end.

**Condition:** During our testing of due from other governmental agencies, we noted that the District had amounts totaling approximately \$1,673,000 recorded as due from other government agencies which were carried forward from prior years. We noted that the District does not have any support for these receivables, they are therefore not collectable and they should have been written off.

**Cause:** Lack of adequate controls over the review of receivable balances.

**Effect:** The lack of review of receivable balances could result in a material misstatement to the financial statements.

**Recommendation:** We recommend that the District implement a policy and procedure to timely (monthly or quarterly) review amounts classified as receivables or due from other government agencies to determine whether those amounts are deemed collectible as well as to determine that there is adequate supporting documentation for each amount.

**Views of Responsible Officials and Planned Corrective Actions:** An Accountant V in the Accounting and Financial Reporting Department (AFRD) will review the accounts receivable and due from other government agencies reconciliations on a quarterly basis. This review will help determine whether those amounts are deemed collectible as well as to determine that there is adequate supporting documentation for each amount. This new process will be implemented by March 31, 2015.

## The School Board of Broward County, Florida

### Appendix A – Current Year’s Recommendations to Improve Financial Management (Continued) Fiscal Year Ended June 30, 2014

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#### 2014-04 – Self Insurance Accounting and Reporting

**Criteria:** GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues requires that claims liabilities, including incurred but not reported claims (IBNR), be based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. IBNR includes: (a) known loss events that are expected to later be presented as claims, (b) unknown loss events that are expected to become claims, and (c) expected future development on claims already reported. IBNR, therefore, is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern. The District should have a procedure in place to review the estimate for claims liabilities and determine that the appropriate liability balance is recorded at year-end.

In addition, GASB Statement No. 10 and GASB Statement No. 66, Technical Corrections (an Amendment of GASB Statements No. 10 and 62) allows an entity to account for its risk financing activities in either the general fund, special revenue fund or an internal service fund.

**Condition:** We noted in the current year the District began accounting for its risk financing activities in the general fund as compared to the prior year, where the activity was recorded in an internal service fund. We noted during our review of journal entries that the close-out the internal service fund to the general fund was not properly recorded. The transaction was recorded through a journal entry but there was no summary document showing the impact of the changes which would have facilitated an improved review of the unique accounting transaction.

We noted in the current year the District utilized the IBNR calculation of its third party actuary to estimate its self-funded Employee Health Plan medical and prescription drug reserves to determine the claims liability as of June 30, 2014. The amount provided by the actuary included the full amount of known and expected loss events as of June 30, 2014. In the prior year the District determined its own monthly average of claims experience and estimated its obligation at 1.5 months worth of claims based on past experience regarding the normal time lag for claims processing.

Per review of the District’s general ledger, we noted that the District misinterpreted the amount provided by the actuary and inadvertently utilized the amount provided by their actuarial specialist which was for the full accrued obligation at year end as opposed to a one month estimate and doubled the amount. Although this amount is an estimate, it resulted in a potential over accrual as of June 30, 2014 in the general fund and governmental activities financial statements for the estimated liability for self insured health risks. Also, we noted there was not a control procedure in place to have this entry reviewed by a separate individual who may have detected the over-recording before the financial statements were presented for audit.

**Cause:** The District staff did not realize the recommended liability provided by the actuary in the current year included the usual lag period for processing claims and therefore included both known and expected unknown losses already.



**The School Board of Broward County, Florida**

**Appendix A – Current Year’s Recommendations to Improve Financial Management (Continued)**  
**Fiscal Year Ended June 30, 2014**

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**Effect:** The incorrect posting of journal entries to close-out the internal service fund resulted in the misclassification of accounts in the fund financial statements. Also, the doubling of the recommended accrual for incurred but not reported claims resulted in an over accrual for the self insured health obligations.

**Recommendation:** We recommend that management formally document its accounting process for recording significant unique transactions such as the closeout of self insurance and consider utilizing summary memos to document the accounting and reporting for the transaction and help facilitate review of the transaction for propriety. In addition, we recommend that management closely review its self insurance claims liability estimates in order to comply with the accounting and reporting requirements of GASB Statement No. 10 which provides guidelines for accounting and financial reporting of risk financing activities. We also recommend that the District review current policies and consider enhancing its review procedures over recording of significant estimates such as this liability for self-insured claims.

**Views of responsible officials and planned corrective actions:** Going forward, Accounting and Financial Reporting Department (AFRD) will utilize summary memos to document the accounting and reporting of significant unique transactions such as the closeout of the self-insurance to help facilitate the review of the transaction for propriety.

During the course of financial statement preparation, certain estimates are made by management to report financial activity in accordance with GAAP. AFRD will add an additional level of review and approval for the estimates of the liability for self insured claims. An Accountant V in AFRD will review the IBNR and prepare the recommended liability for self insured claims estimates. The Director of AFRD will approve the estimates of the liability for self insured claims. The self-insured health insurance plan is in its first few years and the District is being conservative with its estimate for the liability for self insured claims which resulted in an approximately one quarter of a percent higher than the State’s recommended two months reserve. This new review and approval will be completed for the fiscal year 2015 closing.

**The School Board of Broward County, Florida**

**Appendix B – Prior Year’s Recommendations to Improve Financial Management  
Fiscal Year Ended June 30, 2014**

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<b>No.</b>	<b>Prior Years' Observations</b>	<b>Observation is Still Relevant Partially Implemented</b>	<b>Comment Addressed or No Longer Relevant</b>
2013-01	Bank Reconciliations		X
2013-02	SAP User Access Form		X
2012-01	Payroll Approvals		X
2012-02	Capital Asset Inventory Controls		X
2010-01	System needed to monitor FBI screenings		X