

The School Board of Broward County, Florida

Management Letter
June 30, 2013

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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

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 Broward County, Florida (the "District"), as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2013. 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.

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 our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of 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, which are dated December 5, 2013 and January 13, 2014, should be considered in conjunction with this management letter.

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

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. During the course of our audit of the financial statements of the District we noted that appropriate action had been taken upon certain recommendations as outlined in the prior year's management letter. The status of recommendations made in the preceding annual financial audit has been noted in Appendix B to this report.

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 pertaining to the determination of financial emergencies as 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.

Section 10.804(1)(f)3., Rules of the Auditor General, requires a statement as to whether or not the district school board complied with Section 218.415, Florida Statutes, regarding investment of public funds. In connection with our audit, we determined that the District 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 under the heading "Current Year's Recommendations to Improve Financial Management."

Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address fraud, noncompliance with provisions of laws or regulations and 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.

Pursuant to Sections 10.804(1)(f)6.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District'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)7., Rules of the Auditor General, requires the auditor to state whether or not the district school board 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 line item in terms that are easily understandable to the public. In connection with our audit, we noted that the District complied with transparency requirements.

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, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Fort Lauderdale, Florida
January 13, 2014

The School Board of Broward County, Florida

Appendix A – Current Year's Recommendations to Improve Financial Management Fiscal Year Ended June 30, 2013

<u>No.</u>	<u>Current Year's Observations</u>
2013-01	Bank Reconciliations
2013-02	SAP User Access Form

ML 2013-01 Bank Reconciliations

Criteria: The reconciliation of the District's bank accounts is a significant accounting control over the cash receipt and disbursement processes. The District should have internal controls policies and procedures in place to help ensure that bank reconciliations are properly and timely completed and reviewed.

Condition: During our testing of cash, we noted a \$7 million reconciling item within one bank reconciliation which should not have been included and the item was not properly removed from the reconciliation or identified during the subsequent review of the bank reconciliation. It related to an item that had already cleared the bank and resulted in an overstatement of cash and an overstatement of current liabilities which was subsequently corrected through an adjusting journal entry.

Effect: The cash and current liability balances were overstated at month end due to the failure to properly clear the reconciling item which could have led to a misstatement of the financial statements.

Cause: Due to the presentation of this item within the bank reconciliation, there was an oversight in the review process resulting in the failure to timely detect the improperly reported reconciling item.

Recommendation: We recommend that the bank reconciliations be completed with more detailed information and supporting documents to help ensure all reconciling items are appropriately recorded and facilitate a timely review of the reconciliations by supervisory personnel.

Views of Responsible Officials and Planned Corrective Action: The Accounting and Financial Reporting Department agrees with your recommendation that bank reconciliations should be completed with more detailed information and supporting documents to help ensure all reconciling items are appropriately recorded and facilitate a timely review of the reconciliations by supervisory personnel. The Accounting and Financial Reporting Department will provide additional training to the preparer of the bank reconciliations so the items will be properly classified within the bank reconciliations to facilitate the reviewer in detecting these items so that they can properly be recorded. The training will be completed by March 31, 2014.

The School Board of Broward County, Florida

Appendix A – Current Year’s Recommendations to Improve Financial Management (Continued)
Fiscal Year Ended June 30, 2013

ML 2013-02 SAP User Access Form

Criteria: The Information Security Guidelines defines policies over user provisioning, disabling/removing system access rights, and modifying system access for all new, existing and terminated users. General information technology (IT) controls require that existing processes be followed to allow management to properly identify authorized and unauthorized usage and access to materially relevant financial IT applications and supporting systems. The District should have internal controls policies and procedures in place to allow for proper maintenance of system access and that any changes are approved by the appropriate individuals. The user access form is used to obtain appropriate approvals needed to be granted SAP access based upon job role/responsibilities.

Condition: During our testing of IT General Controls, we noted that two employees were given SAP access without completing the proper documentation. We noted for one of 16 new hires selected for testing they did not complete the SAP User Access Form to obtain access, and one of 12 transferred employees selected for testing did not complete the SAP User Access Form to obtain additional SAP access for their new position.

Effect: Without the user access form, inappropriate access may be granted without management awareness and could lead to a misstatement of financial statements and/or potential fraud. In addition, there is also the risk of disclosure of proprietary information, modification, damage, or loss of data.

Cause: Lack of adherence to the Information Security Guidelines.

Recommendation: The District should review its policies and procedures over change management and IT access controls and provide training if necessary, to help ensure that proper access controls are followed to prevent the inappropriate access to the District's information technology systems and underlying data. We also recommend for controls over access provisioning and modification to be consistently applied, including the completion and submittal of SAP User Access Forms in a timely manner. Established policies and procedures should be enhanced to specify the estimated timeline that access forms must be submitted to BRITE System administrators by hiring supervisors.

Views of Responsible Officials and Planned Corrective Action: The Chief Strategy and Operations Office, Information & Technology Division, agrees with the recommendation in the report and Information & Technology will comply. The review, training and updates will be completed by March 31, 2014.

The School Board of Broward County, Florida

Appendix B – Prior Year's Recommendations to Improve Financial Management Fiscal Year Ended June 30, 2013

No.	Prior Years' Observations	Observation is Still Relevant Partially Implemented	Comment Addressed or No Longer Relevant
2012-01	Payroll Approvals	X	
2012-02	Capital Asset Inventory Controls	X	
2012-03	Depreciation of Capital Assets		X
2012-04	Deferred Revenue		X
2010-01	System needed to monitor FBI screenings	X	

ML 2012-01 Payroll Approvals

Criteria: Per District Policy, Bulletin PR-100, during each payroll cycle, the Time Management Report (ZTIM) must be printed, reviewed and signed off by the Principal/Director of each location.

Condition: The District's Transportation Department does not generate the ZTIM report for the Bus Operators. Instead, a WRK215 Compass Report is generated on a daily basis and reviewed by the Payroll Processor for each payroll cycle. The District's Transportation Department was unable to provide this approved report for payroll area BB, period 8/8/11 – 8/21/11.

Effect: Lack of adherence to internal control policy could result in a misstatement to the financial statements.

Cause: Due to a recent office renovation, the District's Transportation Department was unable to locate the requested reports.

Prior Year Recommendation: Each Principal/Department Director is responsible for compliance with the time reporting procedures and for maintaining evidence of compliance through retention of all applicable reports. The District should review its policies and procedures and provide training if necessary to help ensure that reports used to provide evidence of proper authorization of payroll processing are adequately stored and maintained. An evaluation should also be done as to whether or not separate systems of time tracking should be maintained and used.

Prior Year Views of Responsible Officials and Planned Corrective Action: Effective February 8, 2013, the Student Transportation & Fleet Services Department will discontinue the use of the WRK215 COMPASS report for payroll reporting. In conjunction with the implementation of KRONOS (Time & Attendance Payroll System) each Terminal Manager will be responsible for reviewing and signing the ZTIM report after the Payroll Contact has generated it. Additionally, all subsequent documents will be archived and maintained for future retrieval.

The School Board of Broward County, Florida

Appendix B – Prior Year’s Recommendations to Improve Financial Management (Continued) **Fiscal Year Ended June 30, 2013**

Payroll Approval

Current Year Status: We noted that the Student Transportation & Fleet Services Department has discontinued the use of COMPASS and has installed KRONOS as stated in their planned actions. However, we noted one of four selections made after February 8, 2013 did not have evidence of an approved ZTIM report for the Student Transportation and Fleet Services Department for the period covered by check date April, 19, 2013 which included one of the employees we selected for testing, a bus attendant.

Payroll Attendance

We also noted there is no consistent system for recording the use of leave time for exempt employees within the District. There are policies in place to request approval to take leave time but with no log in and log out system there is no mechanism in place to verify the proper use of the leave time. This may result in the failure to record the use of leave time by an employee and an overaccrual/overpayment of leave time by the District.

Current Year Recommendation: Each Principal/Department Director is responsible for compliance with the time reporting procedures. Each Department Director should help ensure that all required approvals are obtained and ZTIM reports are maintained as evidence of compliance. In addition, the District should consider making changes to the existing policy for leave time to require all salaried employees to log in and out each day or provide a leave time taken form upon return.

Current Year Views of Responsible Officials and Planned Corrective Action:

Payroll Approval

The Chief Strategy and Operations Office, the Student Transportation & Fleet Services Division agrees with your recommendation. The Student Transportation & Fleet Services Department did implement the printing of the ZTIM reports after the implementation of KRONOS in February 2013. A request from the external auditors for the ZTIM Report for the paycheck of April 19, 2013 for the North Area Terminal was received. After searching for this specific report, it was determined that the files containing the report had been misplaced after being moved to another location for storage.

In an effort to prevent this from happening in the future, a process will be put in place where all original signed reports will be scanned for storage electronically. Additionally, all transportation payroll operations have been centralized as of August 2013. Currently, all ZTIM reports are generated and forwarded to each of the individual transportation terminals for signature and are returned for storage in a centralized location.

The School Board of Broward County, Florida

Appendix B – Prior Year’s Recommendations to Improve Financial Management (Continued)
Fiscal Year Ended June 30, 2013

Payroll Attendance

The Chief of Staff agrees with your recommendation. Currently, many of the schools and departments maintain a functional attendance sheet for exempt employees that documents payroll attendances/absences for each payroll cycle processed in the SAP Payroll system. In the future, with regard to having a consistent system for recording the attendances/absences for exempt employees within the District, management will improve internal controls over the proper recording of all leave time. Management will review the option of implementing Kronos (payroll timekeeping system) in schools and departments or consider other options to ensure that attendances/absences of all employees are properly documented, in order to efficiently process all payroll transactions in the SAP Payroll system. Lastly, we will review the existing Business Practice Bulletin PR-100 and make any changes to improve the payroll timekeeping function, as recommended.

The School Board of Broward County, Florida

Appendix B – Prior Year's Recommendations to Improve Financial Management (Continued) **Fiscal Year Ended June 30, 2013**

ML 2012-02 Capital Assets Inventory Controls

Criteria: All District personnel should comply with the internal control policies and procedures as noted in the Business Practice Bulletin O-100 in order to provide reasonable assurance that additions and deletions of capital assets relate to the proper fiscal period and are properly classified in the District's Master File of Capital Assets database.

Condition: In the current year the District had additions of capital assets of approximately \$11 million within school locations that related to prior periods. The capital asset additions related to furniture, fixtures and equipment. This problem was initially identified by the Office of the Chief Auditor during the fiscal year. We noted that the majority of the assets were either not being properly coded when purchased, assets were being bundled together and not broken out separately into the capitalization threshold amounts, or the total cost of placing the asset in service was not being captured in order for the asset to be capitalized versus expensed.

Effect: Lack of adequate controls over capital assets could result in the failure to properly track and record all capital assets of the District as required by State Statutes and may result in a misstatement to the District's financial statements.

Cause: The School locations were not adhering to the Business Practice Bulletin O-100 and process improvements recommended by the Office of the Chief Auditor were not all implemented effectively.

Prior Year Recommendation: The District, including each individual school location or department, should ensure capital assets are adequately tracked and reconciled with the District Master File of Capital Assets database on an on-going basis. As part of the semi-annual inventory count process performed by the various schools/departments, some type of reconciliation should be performed between the physical counts and the capital asset inventory listing. Any discrepancies noted, should be evaluated and communicated to the appropriate administrator/department in order to ensure that all assets are captured and accurately recorded. In addition, a report is generated by the Information Technology department to notify property custodians of all new property record creation within the District's Master File of Capital Assets. Upon notification of this report, the property custodian should verify the accuracy of the information associated with the property records. Any corrections required to the asset record should be promptly reported to Accounting & Financial Reporting – Capital Assets department.

Prior Year Views of Responsible Officials and Planned Corrective Action: The Chief School Performance and Accountability Officer agrees with the observations and recommendations. Business Practice Bulletin O-100 Procedures for Property & Inventory Control provides guidance to ensure that additions and deletions of capital assets relate to the proper fiscal period and are properly classified in the District's Master File of Capital Assets database.

The District has made improvements regarding the effective recording of tangible personal property with a value or cost of \$1,000 or more. We will continue to strive to improve this area. As noted in your Current Year Status, the annual independent physical inventory audits performed by the Office of the Chief Auditor will continue to assist in identifying the existing conditions. Again, I will send a memo to all Principals reminding them to review Business Practice Bulletin O-100, including the training module related to purchasing, receiving and reporting capital assets in SAP. This memo will be distributed by February 15, 2014.

The School Board of Broward County, Florida

Appendix B – Prior Year's Recommendations to Improve Financial Management (Continued) Fiscal Year Ended June 30, 2013

Current Year Status: We noted that planned corrective action was taken, however, the District continued to have capital asset adjustments in the current year. The District had additions of capital assets of approximately \$5.3 million that related to prior periods. The capital asset additions related to furniture, fixtures and equipment. This problem was initially identified by the Office of the Chief Auditor during the fiscal year. We noted that the majority of the assets were either not being properly coded when purchased, assets were being bundled together and not broken out separately into the capitalization threshold amounts, or the total cost of placing the asset in service was not being captured resulting in the items being expensed instead of capitalized. The annual independent physical inventory audits performed by the Office of the Chief Auditor (OCA) have assisted in identifying the existing condition. The physical inventory audits remain part of the internal control procedures over District assets.

Current Year Recommendation: The District, including each individual school location or department, should help ensure capital assets are adequately tracked and reconciled with the District Master File of Capital Assets database on an on-going basis. As part of the semi-annual inventory count process performed by the various schools/departments, some type of reconciliation should be performed between the physical counts and the capital asset inventory listing. Any discrepancies noted, should be evaluated and communicated to the appropriate administrator/department in order to help ensure that all assets are captured and accurately recorded. In addition, a report is generated by the Information Technology department to notify property custodians of all new property record creation within the District's Master File of Capital Assets. Upon notification of this report, the property custodian should verify the accuracy of the information associated with the property records. Any corrections required to the asset record should be promptly reported to Accounting & Financial Reporting - Capital Assets department.

Current Year Views of Responsible Officials and Planned Corrective Action: The Chief School Performance and Accountability Officer agrees with the observations and recommendations. Business Practice Bulletin O-100 Procedures for Property & Inventory Control provides guidance to ensure that additions and deletions of capital assets relate to the proper fiscal period and are properly classified in the District's Master File of Capital Assets database.

The District has made improvements regarding the effective recording of tangible personal property with a value or cost of \$1,000 or more. We will continue to strive to improve this area. As noted in your Current Year Status, the annual independent physical inventory audits performed by the Office of the Chief Auditor will continue to assist in identifying the existing conditions. Again, I will send a memo to all Principals reminding them to review Business Practice Bulletin O-100, including the training module related to purchasing, receiving and reporting capital assets in SAP. This memo will be distributed by February 15, 2014.

The School Board of Broward County, Florida

Appendix B – Prior Year’s Recommendations to Improve Financial Management (Continued) **Fiscal Year Ended June 30, 2013**

ML 2010-01 System Needed to Monitor and Track Level 2 FBI Screenings

Prior Year Status: The prior year recommendation has not been fully implemented. The District has re-screened approximately 8,500 employees and anticipates having the full system implemented by May 2013.

Prior Year Views of Responsible Officials and Planned Corrective Action: In response to the memorandum from the Office of the Chief Auditor, dated January 9, 2013, we agree with the findings, recommendation and current year status.

The challenge continues to be development of a software solution that is able to integrate all systems needed to monitor and track retention compliance. With the growing number of charter schools, tracking of charter school employment data for the purpose of fingerprint retention, resubmission and deletions continues to be an obstacle, as this data is not contained in SAP. Not all charter schools comply with employment data requests made specifically for this purpose. All employment data, charter and SBBC, is important when comparing state fingerprint records. Since the state fingerprint records do not identify a charter employee versus a SBBC employee, this causes uncertainty with deletion and resubmissions of fingerprint records.

As a result of consultations with SISCO Identification Solutions, a cost estimate ranging from \$100,000 to \$200,000 was provided for software solutions. The significant range of the estimate is based on one of two scenarios. One is based on integration of current software systems utilized for monitoring and tracking fingerprint records. The second is creation of an entirely new software system for monitoring and tracking fingerprint records. With budgetary constraints in mind, we have determined the best software solution/system, at this time, to ensure compliance with fingerprint retention, resubmission and deletion of fingerprint records is to utilize the current system supplied by Morpho Trust USA, d/b/a L1 Enrollment Services. This system is currently used for vendors and pre-professionals (student teachers). With software modifications, costing less than \$10,000, this system will allow charter schools to view their employees’ fingerprint status, allow us to identify records for invoicing retention and resubmission fees that are currently being paid by the District to the charter, and most importantly allow us to accurately identify charter school employees versus SBBC employees. A “group type” identification process will allow us to accurately invoice, retain, resubmit and delete all fingerprint records in a timely manner. We are anticipating system implementation to occur in May 2013, provided there are no obstacles with the budget approval process.

In addition to this audit, a recent audit by the Florida Auditor General’s Office addressed the continuing 5-year cycle of compliance with employee fingerprint records according to Florida Statute 1012.32. In order to comply with the first 5-year cycle, which began in July 2004, we had to research and identify any gaps and devise a process to ensure overall compliance. As stated in the prior year’s response to observation ML 10-1, comprehensive reports from the SAP employee data system are compared against the state fingerprint data in the Florida’s Integrated Criminal History System (FALCON). Continued analysis of the reports allows us to determine the required actions for the fingerprint record. We are continuing the process of cross referencing the various databases for compliance with Florida Statute 1012.32; however, we have identified a few gaps that will require employees to be physically re-fingerprinted in order to submit their fingerprints for future re-screenings. These identified gaps are anticipated to be completed by April 2013.

As technology is ever changing, efforts to evaluate software solutions for monitoring and tracking Level 2 FBI screenings will continue.

The School Board of Broward County, Florida

Appendix B – Prior Year’s Recommendations to Improve Financial Management (Continued)
Fiscal Year Ended June 30, 2013

Current Year Status: The prior year recommendation has not been fully implemented. The District anticipates having the full system implemented by February 2014.

Current Year Views of Responsible Officials and Planned Corrective Action: The Human Resources Department agrees with your comment that the prior year recommendation has not been fully implemented. The lack of one data source housing all the necessary information needed to determine if a fingerprint record needs to be resubmitted or deleted continues to be an obstacle. We have completed re-capturing all fingerprint records of active employees who were no longer being retained by the Florida Department of Law Enforcement. Additionally, we have completed the transition of fingerprinting services to our contracted vendor and have a system in place to monitor and track Level 2 FBI screenings, a more effective system is being sought.

The fact that the systems used to house all of the necessary information needed to review and determine if a fingerprint record needs to be resubmitted or deleted do not “talk” or “communicate” with each other continues to be an obstacle. Continuous efforts are being made to identify a software solution that is more efficient and effective. Currently, the Information and Technology Department is reviewing our technological processes. The review with recommendations is expected to be completed by the end of February 2014.